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China Report

ECONOMIC AFFAIRS

No. 104



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CONTENTS

NATIONAL POLICY AND ISSUES

Questions Concerning Use of Foreign Capital (CAIZHENG, Feb 80)	1
PRC Economic Journal on Restructuring Economic System (Editorial; JINGJI GUANLI, 15 Aug 80)	6
PRC Economic Journal on Integration of Enterprises (Editorial; JINGJI GUANLI, 15 Sep 80)	11
Need To Build Up Small Towns Discussed (Zhang Changxing, Yang Ming; RENMIN RIBAO, 20 Oct 80).....	16
PRC Economic Journal Discusses Planned, Market Adjustment (Liu Guoguang; JINGJI YANJIU, 20 Oct 80)	22

ECONOMIC PLANNING

Five Sichuan Enterprises Gearing Production to Market Demands (Fan Shi; RENMIN RIBAO, 21 Sep 80)	36
Export of Labor-Intensive Merchandise Discussed (Rong Wenzuo; RENMIN RIBAO, 17 Oct 80)	39
Briefs Tianjin Circular on Bonuses	44

FINANCE AND BANKING

Briefs National Bank Science Conference	45
Heilongjiang Bank Deposits	45
Jiangsu Statistics Bureau Conference	45

ENERGY

Briefs

Oceanic Petroleum Exploration Technique	46
Liaoning Coal Production	46

MINERAL RESOURCES

Briefs

Gold Production News	47
----------------------	----

INDUSTRY

Briefs

Synthetic Knitwear Production Increase	48
--	----

DOMESTIC TRADE

Sichuan Province Experiencing Thriving Market (XINHUA, 27 Nov 80)	49
--	----

Briefs

Heilongjiang Trade Warehouse	50
Heilongjiang Joint Venture	50
National Trade Fair	50
Tianjin Industry-Commerce Cooperation	50

FOREIGN TRADE

Beijing Reviews PRC-Oceania Foreign Trade (Er Chu; Beijing Radio, 26 Nov 80)	51
---	----

Import, Export Evaluation Techniques Improved (GUANGMING RIBAO, 25 Aug 80)	53
---	----

Losses Recovered, by He Hongze
Evaluation Called Important, by He Hongze, Li Wei

Briefs

Shanghai Export Figures	56
Ningbo Fills Export Goals	56
Tianjin Exports	56
Zhejiang Chains Export	57
Guangzhou Fair Closure	57

TRANSPORTATION

Advantages of Pooling Motor Vehicles Explained (Xu Yongping; RENMIN RIBAO, 21 Sep 80)	58
--	----

National City Traffic Managers Study Present Chaos (RENMIN RIBAO, 21 Sep 80)	60
Need for Scientific Management Success in Luda	
Proposals Designed To Speed Up Highway Construction (Xian Lishi; RENMIN RIBAO, 21 Sep 80)	63
Briefs	
Xiangfan-Chengdu Railway	67
CAAC Hong Kong Visit	67
Liaoning Seaports	67
Shanghai River-Harnessing Project	67
Maltese Dock	68
GENERAL	
Briefs	
Industry, Commerce Delegation	69
Beijing Economic Forum	69

NATIONAL POLICY AND ISSUES

QUESTIONS CONCERNING USE OF FOREIGN CAPITAL

Beijing CAIZHENG [FINANCE] in Chinese No 2, Feb 80 pp 23-25

[Text] The rational use of foreign capital is an important part of our program to speed up the four modernizations. In order to do a good job and have things proceed smoothly, we would like to give our views on several related financial questions.

1. The Question Whether or Not To Bring It Within the National Plan

If our country is to realize the four modernizations by the end of this century, it will require an enormous amount of construction funds, but where are such construction funds to come from? We recognize that we must rely primarily on self-sufficiency and domestic accumulation for such funds, but at the same time we will also want to use some foreign capital to make up for domestic deficiency of construction funds. However, the amount of foreign capital used will be determined by our overall plan for developing the national economy, and at present we should arrange things according to the policy of "readjust," "restructure," "consolidate" and "improve." However, regardless of what methods we adopt to use foreign capital to introduce technology and equipment, all need to be included in annual and long-range national economic plans. We must seriously try to obtain a comprehensive balance of finance, materials, credit, foreign exchange and exports. This is because if you want to use foreign capital to introduce technology and equipment for national construction, no sector can proceed independently but must be coordinated with national human, material and financial resources. Here we have not only the consideration of the production and supply of domestic support equipment, there is also the consideration of the organization and construction work in the corresponding civil engineering projects. There are the questions of shipping, installation, and technical training, as well as the question of the supply of raw materials and power once the places have gone into production. Only if these are included in the state plan and a good comprehensive balance is achieved will the human, material, and financial resources required by the introduction of new technology and equipment be guaranteed, and the projects achieve full effectiveness. Because of this, use of foreign capital must be reflected in planning state construction, foreign exchange, material resources and finance. National capital construction should be financed from a combination of both domestic and foreign capital. Domestic capital ought to be used to cover domestic support projects and equipment investment entailed in imported projects, go well as management expenses, local transportation costs, customs duties, industrial and

commercial taxes, bank and foreign trade handling charges, etc. The scale of imported items, the rate of progress, raw material requirements, fuel, motive power, transportation, and other factors requiring support and coordination should be included respectively in the national plan and implemented in a concrete manner.

Foreign capital can be used both by businesses and the state itself. All large scale projects, and ones whose products are not exportable and who have no repayment capacity, should have their loans and repayment handled uniformly by the state. All those imported projects which can produce goods for export, create foreign exchange and have repayment capacity, should have their loans and repayment handled by the enterprises themselves. When projects have loans and repayment handled by the state, the borrowed capital and the repayment of the principal and interests of the loan should be included in the state budget. When the loan is made it should be handled as income from foreign loans, and when it is repaid it should be handled as outlay for repayment of principal and interest. Loans made directly by enterprises cannot be included in the national budget, but ought to be included in state capital construction and goods and materials plans.

Recently, some comrades have stressed that the use of foreign capital should be separated from the state plan. They consider the capital construction part of the National Plan too small to satisfy the increasing needs of the "four modernizations" and emphasize that some capital construction should be outside the plan. We believe this will cause an overextension of the capital construction front, will be uncontrollable and will destroy the integral balance. At present we cannot but note the fact that, for many years, the sabotage of Lin Biao and the "gang of four," high norms, and blind directions have caused serious damage to the national economy. We just cannot continue extending the capital construction front, exacerbating dislocations in the national economy, increasing the difficulties of readjusting the national economy and prolonging the readjustment period.

2. The Question of Repayment Capacity

When borrowing foreign capital one has to consider not only the amount of capital required but also one's repayment capacity. No matter what form is employed to use foreign capital, all depend on foreign credit. When borrowing capital one must always be mindful not only of the need to pay it back but also to pay the interest. This is common sense. At present U.S. and European interest rates are very high, with annual rates of as high as 15 percent. This means that the principal and interest on 100 yuan of our currency paid back in 6 or 7 years would amount to 200 yuan, or twice the original amount. Because of this if foreign capital is used to finance part of the National Plan one cannot ignore repayment capacity. This is because when one uses foreign capital what one borrows is foreign exchange, repayment must also be in foreign exchange.

Taking the example of an individual business, the only way to repay foreign loan capital for purposes of introducing new technology and equipment is to increase production of export commodities to obtain enough foreign exchange; otherwise

there is no way to repay the debt. If an individual business is like this, then so is the whole country in the same situation. Projects planning to use foreign capital ought either to be able to produce export commodities or commodities which serve exports. Only by maintaining an overall balance in the National Plan can the importance of export products be discounted for badly needed domestic items, but items of this sort should not be produced in quantities so large as to affect repayment capacity. Moreover, there is the difficulty raised in this of not being able to meet repayments at all. The measurement of any given country's capacity for repayment from the international point of view is usually calculated each year by comparing the amount of principle and interest with that year's amount of foreign exchange earnings from exports. If the ratio of repayment of principle and interest to amount of foreign exchange earned from exports is small then repayment capacity is considered strong. On the other hand, if the repayment ratio to export earnings is large then the country is considered to have a weak repayment capacity. Western countries tend to consider it important that the loan repayment rate should not exceed 10 percent. If it goes beyond 20 percent there is cause for alarm. This is because at 20 percent a country's debts are subject to world economic difficulties or can be affected by conditions of international tension, exports fall, foreign exchange receipts are smaller, and therefore one is producing goods to pay interest, imports use foreign exchange and it is not possible to repay any principle and interest and there is a danger of having to repay an increasing debt. Of course, this is not an absolute case. It is very difficult to measure a country's repayment capacity exactly because of such variables as the abundance of mineral resources, political stability, favorable or unfavorable balance of payments and the position of one's foreign exchange reserves. Some countries' resources are very good but owing to poor management they are not able to keep pace; they borrow but are not able to produce economic results quickly, become overdue in their payments and have no way out other than to borrow new loans to repay old loans; the debt mounts, interest mounts, the burden becoming daily more intolerable and as a result the national economy reaches the brink of bankruptcy. Because of this, our country must at the outset insure in borrowing foreign capital that it is carried out in an organized manner according to the needs of general and specific policies in the development of the national economy. We will want to give priority to projects which will use foreign exchange sparingly, creating more foreign exchange, produce results quickly and create large profits to guarantee repayment of principle and interest.

3. The Question of Establishing Strict Control of Economic Responsibility

The use of foreign capital should be coordinated through the Bank of China's overall foreign plan. Internally it is necessary to adhere to the principle of whoever borrows, repays, and maintain strict economic principles and apply economic management methods. All business loans should be repaid from their own accounts, while all state loans should be repaid from state sources. Each year the first expense provided for in the state budget and in the foreign exchange plan should be repayment of principle and interest, after which other expenses can be looked after. In order to protect the national reputation strict repayment is required. Those businesses unable to meet their repayment commitments should be absolutely discouraged from acting extravagantly and be made to

meet their responsibilities. Those borrowing to finance projects which introduce new technology and equipment should set up units to insure economic responsibility and organize production to meet that end. Those not able to muster economic effectiveness must, nevertheless, be economically accountable. At present it appears that some projects introducing new technology and equipment haven't carried out sufficient preliminary investigations and are lacking in supply of raw materials, fuels, and are moreover just creating a massive waste. There are quite a few cases of this kind, and they ought to be a lesson for us.

Those seeking help for use of foreign capital to introduce new technology ought to be subject to state regulations which would require after handing in their application and after ratification they be subject to outside observation, technical negotiations and informal cost inquiries. The department concerned ought to assist importing units to carry out investigating research well. It must be stressed that research should insure advanced projects have the necessary human, material and financial resources and whether or not they are arranged to maintain equilibrium in the national economic plan; whether geological resources are dependable or not, technology is advanced or not, whether or not there is an economic rationale, whether the costs of bringing it in are appropriate or not, and if some equipment can be locally manufactured or there are local supply possibilities, as well as borrowing and repayment conditions, etc. Importation can only take place under basic practical conditions, under the scrutiny of the department concerned, and when assured of short-term economic results. Businesses seeking the use of foreign capital ought to be managed by economic methods and be self-accounting. Imported projects can all use profits realized and depreciation recovered to repay loans. Some businesses that experience some difficulty in meeting payments schedule can apply to tax authorities for remission or reduction of their tax liability. After clearing the debt an internal audit should be carried out according to current rules in force.

4. The Question of What To Repay Loans With

Those borrowing foreign capital have to use foreign exchange to repay the loan, and an important source of foreign exchange is through commodity exports. We often hear of the following example: use future commodities to repay. This expression is not wrong. However, careful investigation reveals the meaning is not precise, because if we introduce equipment from abroad, we will want to use foreign exchange obtained from export commodities to repay. Export goods include the two elements costs and profits. The cost element includes production expenses which is circulating capital needed for continuous production. In the formal sense it is only possible to repay loans out of accumulation from increased production of products (including tax and profit). In order to clarify what is meant by this we will take a simple example: If you borrow \$200 to introduce new equipment, annual products equal \$100, costs are \$60 and taxable profits are \$40. If goods are used to repay the loan 2 years will be required to clear the debt. But the \$200 loan consists of \$120 costs and only \$80 is taxable profits; if taxable profits are used then 5 years would be required to repay the loan. Why then cannot goods be used to repay loans? The answer is affirmative. If products are used to repay loans, one must take costs into consideration as part of the source of capital. In order to reduce the amount of foreign exchange used to repay loans and shorten the period of repayment, it is possible to convert the

loans to local RMB currency, that is taking a foreign debt and turning it into a domestic one. Under the domestic conditions this has advantages for both state and business and deserves consideration. But it is not quite so simple to arrange this kind of repayment because in reality it is only possible to repay debts from profits (taxable) from goods. One can also say the only way to repay loans is through that portion of products that provides accumulation. If one is also considering the possibility of conversion of the external debt into a domestic one, accumulation is still the only possible way to repay it. When using foreign capital we will certainly want to consider those projects that use little capital, provide for economic efficiency, are foreign exchange creating and are capable of large accumulation. Products with a high accumulation rate will be able to repay loans in a short time. On the other hand, if the rate of accumulation is small the repayment period will be very long. If there is no accumulation from the production of goods there is simply no way to repay loans and one will have to resort to other sources of accumulation to repay portions of the loan. One can also put it this way: If one consumes old accumulation, one has to initiate new capital construction. Because of this it is especially important first and foremost to earnestly consider economic efficiency.

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NATIONAL POLICY AND ISSUES

PRC ECONOMIC JOURNAL ON RESTRUCTURING ECONOMIC SYSTEM

HK301234 Beijing JINGJI GUANLI in Chinese No 8, 15 Aug 80 pp 28-30

[Article by editorial board: "Questions That Require a Closer Look in the Restructuring of the Economic System"]

[Text] Since the 3d plenary session of the 11th Party Congress, we have made great progress both in theory and in practice as well as accumulated beneficial experience in carrying out reform in the economic management system. However, as this work unfolds and intensifies, many questions are being raised that require further study.

Since the start of our new column "Open Discussion on the Restructuring of the Management System" in this magazine, and acting in accordance to the principle of "let a hundred flowers blossom and a hundred schools contend," we have published many comrades important views, for which we have received support from the concerned leading bodies and many readers. In order to carry the discussions a step further, the editorial board now puts forward the following questions that it considers relevant. We welcome views and suggestions based on investigation and research from those who are working in related fields and from theoreticians. Some letters will be selected for publication, while others will be sent to the concerned leading bodies for their reference.

After more than a year's study and practice, our understanding has basically become unified and we have scored some success in the following main points:

1. We admit that it is necessary to develop a commodity economy at the present socialist stage. An enterprise is a comparatively independent commodity producer and should therefore enjoy comparatively independent economic rights and interests. In restructuring the system, the enterprise should be taken as the unit and work should proceed from establishing and expanding the self-management rights of an enterprise.
2. In implementing the guiding principle of combining regulation by planning and regulation by the market, we should stress the former and give full play to the latter. While at the same time we should adopt the policy of developing the strong points of each locality, safeguarding competition and promoting joint enterprises so as to enliven the economy.

3. The state should exercise unified leadership over the economy. We have to change purely administrative methods into economic methods; that is, we have to integrate administrative methods with economic methods. But the stress should be on economic methods. Furthermore, economic laws should be passed to exercise effective supervision over the economic activities, which should be controlled but not allowed to become stagnant, and lively but not allowed to get out of hand.

4. The restructuring of the economic management system is no small matter; it not only requires emancipation of the mind and courage, it also needs caution. It is necessary to actively carry out minor restructuring and at the same time explore more deeply both into theories and by experiments, and thus prepare viable plans for an overall restructuring.

At present, some of the questions that require further study are as follows:

1. How to Go About Further Expanding the Experimental Work of Increasing Enterprise Self-Management Rights?

Altogether, 3,358 enterprises carried out the experiment throughout China last year. An overall view shows us that the direction is correct and the achievement great. Based on incomplete statistics supplied by 2,900 industrial and communications enterprises taking part in the experiment from the country's 22 provinces, municipalities and autonomous regions, the total industrial output last year was up 12.2 percent over that of the previous year, realized profits were up 20 percent and the profits turned over to the state up 13.4 percent. The increases in the above figures are much greater than the average increase of enterprises that did not take part in the experiment. On the basis of increased production and revenue, basically we have achieved the "three mores;" that is, the state receives more, the enterprises retain more, and staff and workers earn more. Moreover, the state receives much more than the enterprises. The questions that require urgent study are:

1. Since the circumstances of every department and enterprise are different, many problems are still found in the existing price levels. Having implemented a profit retention system, enterprises are experiencing different degrees of advantages and disadvantages. How to go about making the amount of profit earned by an enterprise reflect the degree of effectiveness of its operations? Should we replace turning over profits to the state with state taxes? For the time being, price levels cannot be adjusted across the board. Can we, as an interim measure, adopt the method of internal price calculation?

2. The greater part of the profits is retained by an enterprise for its production development fund. How is this part of the fund to be utilized? Is it possible to let enterprises engage in capital construction on their own? Should they invest the fund in other enterprises? As the enterprises are not aware of the national supply and demand situation, what measures should be taken to guide them so as to avoid any further blind actions being taken in capital construction?

3. In our experiment in the expansion of self-management rights last year, our work principally dealt with the expansion of financial rights, and we have achieved some success. However, self-management rights involve many questions, such as compensatory use of fixed capital and liquid assets, the writing off and utilization

of fixed capital depreciation, the selection and dismissal of staff, the self-management rights over wages and bonuses, the drawing up of production plans, the supply of materials, the rights and restrictions in conducting foreign trade and so forth. What policies and measures should be adopted so that they will become a complete system, our own system of socialist enterprise self-management?

4. At present, the experiment is being conducted in industrial and communications enterprises. How can it be expanded into commerce, service and other economic departments?

II. How to Properly Deal With the Relationship Between Regulation by Planning and Regulation by Market, Thus Further Enlivening the Economy?

Since the guiding principle of combining regulation by planning and regulation by the market was implemented in various districts and departments last year, special attention has been given to linking production with demand; furthermore, more outlets for commodities have been secured, while production has been promoted and the market further enlivened. Thus, great results have been achieved. According to incomplete statistics, 10 percent of last year's total industrial production was regulated by the market. In some districts the percentage reached 20-30. The value of self-marketed industrial products has reached 10.3 billion yuan, enabling a great number of enterprises to make the transformation from "not enough to eat" to "too much to eat." The economic effects of production have been enhanced as a result of the special attention being paid to enterprise management and improved standards of service. At present, the main questions to be studied are:

1. How is the question of combining regulation by planning and regulation by the market to be interpreted in theory? Is it a combination of two different things, or is it a case of both systems overlapping to a certain extent? Or is it perhaps one that involves a unified plan within which there is a big plan with some degree of freedom; that is, planning combined with flexibility? In practice, how should we improve the planning system so as to simultaneously develop its guiding function, thus securing control without rigidity, and liveliness without confusion?

2. Giving full play to regulation by planning was largely achieved by allowing enterprises to market their own products last year. However, the real expansion of commodity circulation largely depends on the restructuring of the commercial system (including departments of goods and materials). How do we improve enterprise operations, open up more channels of circulation, reduce the number of links in the chain of circulation, transform passive marketing into active marketing, make enterprises not only understand in time what the demands are and to satisfy them, but also assist in promoting both industrial and agricultural development?

3. On foreign trade, how do we mobilize the initiative of enterprises producing for export? How to expand export of commodities while securing a united effort to enhance the competitiveness of Chinese products marketed internationally by those enterprises engaging in export trade?

III. How to Combine the Work of Promoting the Reorganization of Industry According to the Principle of Specialization and Cooperation with the Restructuring of the System?

Reorganizing industry according to the principle of cooperation with specialization is an inevitable trend in economic development. Most of our country's existing industrial enterprises are self-sufficient. In both large and small enterprises, where the degree of specialization is low seriously undermines the raising of productivity. Since close attention was given to this question a few years ago, we undertook the work of reorganizing industry according to the principle of cooperation with specialization. However, the work was carried out by relying on administrative orders from the higher level, and many companies specializing in different fields and joint enterprises were thus set up. Owing to insufficient study of the objective laws of specialization and cooperation, deviation occurred when the reorganization was being carried out. Some mistook departmentalization for specialization. They divided an originally integrated factory into several sections with each section being considered a specialty. Some even forcefully carried out integration of several factories, lumping production, supply, marketing, manpower, capital and materials together under one management. Some set up many administrative companies, thus the number of organizations with top-level administration has increased aimlessly. Reorganization carried out without following objective laws and without producing economic results is only reorganization in form. In connection with the restructuring of the system, those questions that require urgent study are:

1. Since we admit that an enterprise is a relatively independent producer, possessing relatively independent self-management rights, specialization and cooperation should be on the basis of voluntary participation and mutual benefit. How should administrative departments exercise their functions of guiding and promoting enterprises?
2. The existing financial system is a two-tier system. Since an enterprise's turned in profit is linked to public finance, thus creating "departmental ownership" and "local ownership," which proves to be a hindrance to voluntary participation in forming joint enterprises according to economy laws, how should restructuring be carried out and joint enterprises promoted?
3. Joint enterprises may take various forms, ranging from enterprises with casual ties to enterprises with centralized management. Are there any inherent laws governing the development of these forms of joint enterprises?
4. What measures should be taken to transform administrative companies that have already been set up as enterprises?
5. In addition to industrial joint enterprises, what criteria should be followed in developing joint enterprises such as agricultural-industrial, agricultural-commercial, industrial-commercial, agricultural-industrial-commercial and other forms of joint enterprises?

IV. While Restructuring of the Economic Management System is Being Carried Out, How Do We Institute the Internal Management System of an Enterprise?

Restructuring of the economic management system is carried out mainly to solve the problems in the management of the national economy. On the one hand, it shows the relationship between the state and the enterprises, while on the other hand, it shows the relationship between the various enterprises. In admitting that enterprises are relatively independent producers, possessing relatively independent self-management rights, we are, under the socialist system, inevitably linking it to another question of importance. It is the question of the internal management system of an enterprise with self-management rights. Furthermore, it is chiefly a question of the leadership system. Presently there are many different views on this question. Questions that need to be explored from the aspect of the characteristics of the socialist system as well as from the aspect of the objective laws of economic activities are as follows:

1. How do we go about strengthening and improving the party leadership in a socialist enterprise? How do we solve the problem of not differentiating between the work of the party, the work of the state and the work of the enterprises?
2. How do we carry out democratic management in a socialist enterprise? How to fully develop the supervisory role of the masses? How to practice a high degree of concentration on the basis of democracy so as to meet the objective demands of modernized production on a large scale?
3. How do we separate the rights and duties of the party organs, workers congresses and managers?
4. Having expanded the self-management rights, what kind of role should the labor union play?

Questions related to the restructuring of the system are still numerous and they touch upon all aspects of the economy. The questions raised above are our tentative, superficial views, which may not have been properly presented. However, they are only intended to serve as a reference for those who will engage in further studies and air their views.

CSO: 4006

NATIONAL POLICY AND ISSUES

PRC ECONOMIC JOURNAL ON INTEGRATION OF ENTERPRISES

HK280512 Beijing JINGJI GUANLI in Chinese No 9, 15 Sep 80 pp 10-12

[Commentator's article by the editorial board: "Uphold the Principles of Voluntary Participation and Mutual Benefit and Promote the Integration of Enterprises"]

[Text] In this issue we carry three articles respectively on the experience of Changzhou Municipality in organizing the coordination of specialization in production, on companies that should not deprive their factories of autonomy and on promoting the integration of several textile enterprises in Changzhou and Wujin municipalities. These articles are aimed at providing reference for readers.

It is a necessary trend in the development of the national economy to organize industrial production according to the principles of coordinating specialization. It also plays an important part in restructuring our economic management system. But the principles, method and measures of the restructuring have yet to be studied and summed up. As early as 1962, Changzhou Municipality began to organize specialized coordination in producing corduroy. It has now expanded coordination in eight different enterprises with a certain amount of success. It has thus gained some experience. But it has met with some problems such as how to set up specialized companies and how to develop integrated enterprises. The following are some of the related general problems that merit our study.

The first problem: Should the coordination of specialization be carried out through forcible "restructuring" on the orders of higher authorities or should it be carried out according to the principles of voluntary participation and mutual benefit?

Over the past year or so, many departments and regions have taken positive measures to restructure their industry in a bid to promote specialized coordination in industrial production with a certain amount of success. But in some places, the achievements have been far from satisfactory while in others the measures taken have even hindered the development of production to the dissatisfaction of the masses. Why? No doubt there are many reasons but one is that some departments and places have not followed objective economic laws. On the contrary, they have oversimplified matters in an attempt to forcibly carry out standardized "restructuring" at a stroke.

As specialization and coordination are necessary for the development of industry, they naturally have their own objective laws of development. Capitalist specialized coordination is formed in the process of competition. In our socialist country, we

can enhance such coordination in a planned way, but still we can only act according to objective laws; we can only make the best use of the situation and when conditions are ripe. We are sure to be successful, if we do not proceed from reality and do not consider objective needs and possibilities, but subjectively issue orders to "restructure" "at a stroke," we will not achieve the desired speed.

Some departments and places simply regarded specialization as "dispersing" a factory into several sections, or "spreading" out part of the products or accessories. In fact the nature of specialization is not dispersal but concentration. Specialization means that production of the same products or of products manufactured by using the same processes are concentrated for mass production to increase economic results. If production is dispersed, we will not be able to engage in mass production, on the contrary, we will increase transportation costs. This may also result in a reduction in the quality of the products due to lack of technical sophistication, lower efficiency and waste of management expenses by increasing production costs. Then what is the significance of such specialization?

The situation is the same for the coordination and integration of enterprises. The need for coordination and integration is decided by a certain objective economic need. No matter whether it is coordination in production, integration of sales and supply or even complete integration of production, supply and sales, or whether it is coordination and integration of companies and enterprises, the ultimate aim of all these measures is to achieve better economic results than individual operation to the benefit of all parties concerned. Such regrouping is no doubt significant. If we disregard reality and forcibly group several plants together, set up a company by order from higher authorities and add one more layer of administration or if we at once integrate production, supply, marketing, staff administration, finance and materials to deprive the factories of their very limited and recently won autonomy, then none of these measures will be welcomed.

The key point of the current restructuring of the economic management system is that we must acknowledge that an enterprise is an independent producer of commercial goods, and that it should have relatively independent economic autonomy to combine the economic interests of its staff with its earnings in production. Only in this way will an enterprise become an active organism displaying its initiative in promoting production. In the final analysis, whether the whole national economy can develop rapidly or not depends on the activities of the factories of enterprises. Therefore, the restructuring work must be carried out within the enterprises themselves so as to expand their autonomy.

Since an enterprise is a relatively independent economic unit with relatively independent economic autonomy, the coordination and integration among enterprises or the setting up of a company by several enterprises must be carried out under the premise of voluntary participation and mutual benefit. It will not do for higher organizations to act as "parents that arrange marriages for their sons and daughters." Such organizations must also follow the principles of voluntary participation and mutual benefit so as to promote integration and speed up the development of specialized coordination. The reason that Changzhou Municipality gained good experience in organizing coordination of production is that it did the work according to the need of the enterprises and made the best use of the situation to gradually form this coordination. But to hastily organize plants producing hand-propelled tractors into a company ran counter to the principles of voluntary

participation and mutual benefit. This measure in fact failed to make best use of the situation. This necessarily resulted in the desired speed not being achieved.

The second problem: What kind of relationship should there be between a company and its subsidiary factories?

I agree with the article by Comrade Zhuang Qidong [8369 0796 2639] and Sun Kelian [1327 0344 0081] on the investigations of the Changzhou Diesel Machinery Plant. But I want to add something to the title of their article: "A Company Must Not Deprive Its Subsidiary Factories of Their Own Autonomy."

When discussing the expansion of the autonomy of enterprises, what are the enterprises then, factories or companies? When factories are integrated or merged into a company, do they still maintain their independent position? Before we deal with this question, we must first of all clarify what are enterprises. Simply speaking, enterprises are units that carry out economic activities with independent business management and independent accounting. They may engage in producing commodities and circulating them or engage in both these activities. No matter what activities they are carrying out, these enterprises are profitmaking economic organizations with independent accounting.

An administrative company without independent accounting is not an enterprise, it is just another name for an administrative organ. Since this company is not an enterprise, then it has nothing to do with autonomy. But all the factories under such a company are enterprises with their own autonomy. Therefore it is justifiable to say that "a company must not deprive its subsidiary factories of their autonomy."

If a company is not an administrative company but an enterprise with independent business and independent accounting, if it integrates production, supply, marketing, personnel administration, finance and materials and all its subsidiary factories are production units without independent accounting, and if it is responsible for all the profits or losses of these factories, then such factories are no longer enterprises. In such a situation, the so-called expansion of the autonomy of enterprises refers to the expansion of the autonomy of the company. Thus in such a situation, it is wrong to say that "a company must not deprive its subsidiary factories of their autonomy."

Another situation is: If a company is an enterprise with independent accounting but does not integrate production, supply, marketing, personnel administration, finance and materials, then it is a loosely united company; or it is a united marketing company that is responsible for the sale of products only; or a supply and marketing company that is responsible for outside business activities but whose subsidiary factories maintain independent accounting and assume sole responsibility for their profits or losses, with the company itself carrying out independent accounting with regard to its own business and also assuming sole responsibility for its profits and losses, in this case both the company and its factories are enterprises with their own autonomy. Company enterprises and factory enterprises may establish fixed relations through contracts, and under this situation, the question of deprivation of one's autonomy does not exist.

Now the question is what kinds of companies should we establish? The companies we are to establish must be formed by factory enterprises on the basis of voluntary

participation while their nature must be defined according to actual need. If the related factories need integration but not of a highly concentrated nature, it is not right to form them into a trust company that is responsible for production, supply, marketing, personnel administration, finance and materials. Integration in production, supply, marketing, personnel administration, finance and materials will bring higher economic results and better economic interests to the related factories only if the integration is carried out amid higher economic development. When this happens, partly integrated companies and loosely integrated companies will be developed into unified companies according to the needs of all the related factories.

The third problem concerns the nature of integrated enterprises and their leadership systems.

Further economic development needs specialization and integration in production. The only criterion for deciding whether it is necessary to carry out specialization and integration is economic results. Whether it is to carry out loose integration, partial integration or the complete integration of production, supply, marketing, personnel administration, finance and materials depends on which form of integration will bring the best economic results. Integration must be carried out on a voluntary and free basis, therefore such integration may override limitations as to departments, regions and ownership systems. Thus enterprises transcending professions, regions and ownership systems may be formed to touch upon some basic problems of the present economic system. Therefore this question has yet to be answered from the viewpoint of ideology and policy. Judging from the problems raised in the investigations by the textile industry bureau of Jiangsu Province, the following problems have yet to be studied:

1. How to deal with ownership by the whole people and collective ownership under the socialist system? What is the significance in differentiating between these two types of ownership? Can these two types of ownership be combined into a single public ownership to unify economic management?
2. How to correctly handle investment under the socialist system? Is it in line with socialist principles to issue dividends? If not, how can we encourage investment?
3. The present situation is that enterprises owned by the whole people are either under the leadership of the central government or of a locality. These enterprises have to turn over their profits to the central government or locality. Thus because of the management system and the relations of interests, there in fact exists "departmental ownership" and "local ownership." This situation seriously hinders free integration. Would it not be better to carry out the principles of "the system of the enterprises themselves" to enable economic units to get in contact with administrative organizations. With regard to the relations of interests, can we change the method of turning over profits in favor of taxation? That is to say, enterprises have to pay certain types and amounts of tax to the central government and locality. By doing so, these enterprises are independent in their business, free to integrate, assume sole responsibility for their own profits and losses, and to promote economy.

4. How to exercise the leadership of the party within socialist enterprises? The method of putting factory directors under the leadership of party committees is fraught with problems both in theory and practice. It simply does not work to integrate enterprises in different regions into a company or a joint enterprise and put them under the leadership of party organizations. Would it not be better for the party organizations to act as supervisors in factories, companies or joint enterprises to see that the state economic policies are implemented? Workers' congresses and factory directors (managers) are respectively responsible for implementing policies and controlling the management of the production of enterprises under the principles of democratic centralism.

The central government's principles of "displaying advantages, protecting competition and promoting integration" is an important strategic principle for the development of our economy. No doubt, in implementing this principle we will face new problems that have to be studied theoretically and that demand practical explanation and solution. So long as we persist in emancipating our thinking, proceed from reality and rely on the initiative and creativity of the broad masses of the people, the great Chinese people will surely be able to form a Chinese type of socialist economic system and open up the road for the realization of the Four Modernizations.

CSO: 4006

NATIONAL POLICY AND ISSUES

NEED TO BUILD UP SMALL TOWNS DISCUSSED

Beijing RENMIN RIBAO in Chinese 20 Oct 80 p 5

[Article by Zhang Changxing [1728 7022 5887] and Yang Ming [2799 2494]: "We Need To Give Serious Attention to Construction of Small Towns"]

[Text] The construction of small towns is an important integral part of China's socialist construction of cities. Not only does it possess important ramifications for a rational pattern in politics, the economy, and cultural education as well as for labor employment, it is also closely related to the four modernizations. We must give serious attention to the construction of small towns.

During the 30 years since liberation, the construction of urban areas in China has shown great achievements overall. Nevertheless, owing to the stress we placed on the development of large and medium-size cities, to the neglect of the construction of small towns, for a long time the overwhelming majority of small towns have remained substantially in a state of natural development. This state of affairs is not suited to the requirements of the four modernizations, and unless it is changed, it must inevitably have serious consequences for China's socialist construction. In the "Chinese Communist Party Central Committee's Decisions Pertaining to Acceleration of the Development of Agriculture," which was passed by the Fourth Plenary Session of the 11th Party Central Committee, it was pointed out: "We are determined to give the utmost attention to the strengthening of the construction of small towns and equip them through the gradual use of modern industries, communications and transportation, modern commercial and service industries, and modern educational, scientific, cultural, and health enterprises, so as to make them into advance bases for the transformation of the appearance of rural villages throughout the country." For this reason, strict control of the size of large cities and planned and active enhancement of the construction of small towns are urgent tasks confronting us.

Throughout China today, there are somewhat fewer than 200,000 small towns with populations of somewhat more than 100, and there are somewhat more than 3,200 towns that are organized as towns, or county seats not organized as towns. Additionally, there are 500,000 commune sites, most of which have incipient rural market towns. This large number of small towns is spread like the stars in the sky over 9.6 million square kilometers of the soil of the motherland.

Looked at in terms of their evolution, except for satellite towns that have grown up since liberation in some industrial and mining regions, most of these towns came into being naturally a long time ago. In the wake of the establishment of administrative divisions and the growth of agricultural, industrial, commercial, educational, and hygienic endeavors since liberation, many small towns have gradually become local centers for politics, the economy, and culture. However, because different towns started off on different footings, and because economic development since liberation has been slow in some places and rapid in others, the development of these small towns has been unbalanced.

Looked at in terms of the characteristics of small towns and some typical examples in which a good job was done in the construction of small towns, intensification of smalltown construction is a necessary trend in the development of our national economy, and objective requirement for the realization of the four modernizations, and the road that must be followed for the gradual narrowing of the gap between the cities and the countryside and between industry and agriculture. Therefore, this is a strategic program for the construction of China's cities. It occupies an important position in the construction of the four modernizations, and it has a distinctive function that large and medium-size cities cannot replace, as manifested principally in the following aspects:

1. Many small towns scattered over wide areas will help improve the distribution of industry and control the size of major cities.

China's industry currently is concentrated mainly in a few large cities. Statistics from departments concerned show that in 1978, 53 percent of all large and medium-size enterprises throughout the country were concentrated in 38 large cities. Industrial output value for these large cities amounted to 65 percent of the total industrial output value for the entire country. The output value of a single Shanghai city last year equaled the total industrial output value of nine provinces and regions in southwest and northwest China. Because of this overconcentration of industry, the population of large cities becomes inflated, creating pressures on transportation, housing shortages, inadequate water supply, serious pollution, and a series of hardships. These both impair the lives of the people in the cities and are disadvantageous to the further development of production. Over the long term, as the national economy develops further, there will have to be great growth in construction for industry and for other endeavors. If numerous additional projects are to be placed in the large cities, the already inflated large cities will inevitably suffer more lopsided development, and contradictions will become even sharper. Some may be properly placed in medium-size cities, but not too many; otherwise, they will follow the same old disastrous road of the large cities. In small towns, however, there is a vast area and all sorts of geographic conditions from which selections can be made. There is a great deal of spare land for expansion which can hold large amounts of newly built projects. Furthermore, this will permit avoidance and reduction of the various drawbacks resulting from overconcentration of industry in cities.

Small towns can also operate plants jointly with large and medium-size cities, taking on the task of distributing their products. At the present time, many smalltown industries and handicraft industries produce large quantities of items needed in the daily lives of the people in cities and countryside, and they

shoulder the tasks of large-scale foreign trade exports and the processing of incoming materials. They do this in addition to producing complete sets of spare parts and manufacturing specialized equipment for light textile industries. In this way they are able to diffuse or reduce pressures on the big cities, improve the irrational state of affairs in the pattern of industries, and accelerate the development of the entire national economy.

2. Small towns located near places that produce raw materials are helpful in taking advantage of natural resources and in broadening avenues of production.

China is a vast land with abundant natural resources. Small towns spread everywhere throughout the country can make the most of advantages and avoid disadvantages, make full use of special local conditions and, under the guidance of the unified state plan, make the most of advantages provided by local natural resources, open diverse avenues for production, go all out for comprehensive utilization, and march forward to broaden and deepen production. They can vigorously start up processing industries that use as their raw materials the local output from agriculture, forestry, livestock raising, sideline occupations, and fisheries, as well as arts and crafts and other traditional handicrafts, such as embroidery and carving that require little or no allocation of energy resources. This gradually leads to integrated development of agriculture, industry, and commerce. Smalltown industries and handicraft industries developed in this way have great vitality and competitiveness. They not only do not compete with large industry for raw materials, but they can become helpmates and assistants to large industry.

Small towns that are close to local raw materials or to places that produce fuels are helpful in teaming together production, supply, and marketing, in shortening transportation distances, in reducing quantities transported and damage to goods, and in reducing costs in accordance with rational economic principles, and they can be the recipients of quite good economic benefits.

3. Development of smalltown industries helps support agriculture and quickens the pace of agricultural modernization.

In recent years, industry in towns that are county seats--particularly the industry of communes and brigades--has developed vigorously. At the present time, 95 percent of communes nationwide operate more than 300,000 industrial enterprises of one kind or another. A major characteristic of smalltown industry is that a fairly large proportion of them are industries that support agriculture. Many small towns run farm machinery repair, chemical fertilizer, agricultural chemical, and building materials industries suited to local requirements for support of agriculture. They produce all sorts of goods to help farming, directly providing service to agricultural production and rural village construction. In Changshu County in Jiangsu Province, 240 of the smalltown industries of various kinds that serve agriculture produce more than 30 kinds of major products for farm use. Now, many of the materials used in farming are supplied substantially through local production and make a very great contribution to growth in agricultural production.

Development of smalltown industries can also enhance accumulations of regional public funds and strengthen the collective economy to provide more and more funds for agriculture. Information from Suzhou Prefecture in Jiangsu Province shows how, in the 3-year period from 1977 to 1979, commune and brigade industries throughout the prefecture provided a total of 210 million yuan of capital for agriculture, amounting to 3.2 times the state investment in this prefecture for the same 3-year period. This greatly hastened the progress of rural construction and the mechanization of agriculture.

4. Small towns are the bridges linking the exchange of materials between cities and the countryside, and they are helpful in enlivening the market and making the economy prosper.

Small towns occupy a position between large and medium-size cities and the numerous rural villages; they are a bond and a bridge that link large and medium-size cities with rural villages. A large amount of industrial goods from large and medium-size cities passes through these small towns on their way to the widely spread rural villages. Grain, cotton, edible oils, pork, and other local agricultural byproducts from rural villages also are transported through these small towns on their way to large and medium-size cities. Therefore, enhancing and making the fullest use of the role of small towns as a bond and a bridge in the exchange of goods between cities and the countryside play a major role in widening the channels for circulation and in doing a good job of commodity exchange.

Small towns also are the principal grounds for country fair trade by agricultural villages. These country fairs play a very great role in promoting the development of agricultural sideline occupations and handicraft industry production. They provide a source of supply for the commercial sector and serve in the exchange of needed goods among commune members themselves, and between commune members and the inhabitants of cities and towns. Furthermore, they regulate surplus and scarcity, are a convenience for the masses, and improve the material lives of the masses.

5. Small towns are cultural centers for rural villages and help increase the cultural and scientific levels of the masses.

Small towns virtually centralize all cultural and propaganda facilities in a local area. The building of good cultural centers for rural villages and market towns can enliven the cultural life of rural villages and lead the rural masses, particularly youths in rural villages, into proper and healthy cultural entertainment activities that increase their culture.

Additionally, some major middle and primary schools, scientific institutes (or stations), hospitals, commune hospitals, and such rural educational, scientific, and health units are also concentrated, for the most part, in small towns. Thus they play an exemplary and guiding role in the improvement of cultural and educational standards for all rural villages, in the advancement of scientific knowledge, and in the carrying out of medical diagnostic and health work.

6. Small towns possess great potential for the population and are helpful in solving the problems of excess labor.

China's rural villages now have a population of 800 million, of which 300 million make up the labor force. Currently, in some places where land is scarce but the population is large, or where the degree of mechanization of agriculture is higher than elsewhere, the problem of excess labor has appeared. In the future, this problem will stare us in the face with greater and greater intensity. Authorities concerned estimate that by the end of this century, there will be a surplus agricultural labor force numbering more than 100 million people. Such a large surplus labor force cannot and must not go into the existing large and medium-size cities. But large numbers of small towns with populations of 50,000 to 60,000 can take large numbers of the labor force. Consequently, development and construction of small towns constitute a major solution to the problem of excess labor. If, over the next 20 years, each small town in the country gradually absorbs an average of 2,000 people, this more than 100 million surplus labor force in the rural villages can be provided for on the spot.

To sum up the foregoing, small towns offer many advantages, and consequently the planned active development and construction of small towns should arouse in us a high degree of serious interest. On the basis of past experience and problems currently existing in the construction of small towns, we feel that getting on with the construction of small towns will require emphatic attention to the following several tasks.

First, there must be a unified plan for the development of small towns. The growth of small towns will be decided principally by the growth of their productivity, and the active development of county and commune (or market town) industries is a major way to develop the productivity of small towns. A large amount of facts from numerous advanced regions shows that once there is industrial growth, a foundation exists for the building of small towns, and that businesses, service industries, cultural, educational, health, and other endeavors will show commensurate growth in their wake, not only enriching the economic and cultural content of small towns but also enhancing the economic strength of the towns themselves for their own construction. Therefore, in drawing up long-range state economic plans, every jurisdiction should work out a sensible pattern for production forces on the basis of natural and economic conditions locally, making the planned development of county and commune (market town) industries a major part of them. Every large or medium-size city should plan, on the basis of rational economic principles and requirements for the "promotion of integration," for some processing industries, particularly agricultural sideline product processing industries, and industries that directly serve agriculture, to be dispersed or transferred to rural villages to make fullest use of the advantages that rural villages offer, and to carry out integrated enterprises in small towns, teaming up urban industries with industries in rural villages.

Second, there is a need for the formulation of specific policies and measures for the encouragement of the growth of small towns. For example, there is a need to actively support collective enterprises in small towns, to respect their autonomy, to guarantee their economic welfare, and not to practice egalitarianism or indiscriminate transfer of resources. Some jurisdictions pile tax upon tax onto collective industrial plants with high output value and large profits. This can stifle the initiative of small towns in undertaking collective enterprises. Additionally, sensible tax revenue policies must be formulated that will help

them accumulate capital to further expand production. Furthermore, there is a need to formulate policies and necessary measures that will encourage the people in large cities, and particularly the educated youths and scientists and technicians among them, to voluntarily support the building of small towns.

Third, sources of capital for the construction of small towns must be made available. Currently, with the exception of a small number of county market towns and industrial and mining areas where industries are fairly concentrated and fees are collected for the support of small towns, other small towns in rural areas have no channels for construction and maintenance. The state cannot be relied upon to allocate funds for use by these small towns as construction capital. Mostly, they will have to rely on themselves for the arduous development of industries, but they have to have a way of doing it. For example, consideration can be given to having each new enterprise operating in small towns in the future to make arrangements for certain expenditures to be used for the construction of public utilities in the town. From the profits retained by enterprises operated above the county level, and from the profits of enterprises run by communes and market towns, there should be separately stipulated proportions used for the construction of public utilities. As the economy grows and earnings increase, local public finance units should also gradually increase disbursements of construction funds for small towns. Departments concerned should also make every effort to include in their plans the materials required for smalltown construction and to make arrangements for this.

Fourth, the leadership and management of smalltown tasks should be strengthened. In many places, the attitude toward smalltown work has for a long time been: "The province doesn't bother; the prefectures give it no place; and the counties are unable to care." CCP committees and the government at every echelon must fully realize the position and function of small towns, give serious attention to and strengthen work in this regard, and really place it on their agenda. They should diligently undertake investigation and study in order to clarify the current situation and problems existing in smalltown construction, summarize both the negative and positive experiences of the past 30 years, and study ways to find solutions.

9432

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NATIONAL POLICY AND ISSUES

PRC ECONOMIC JOURNAL DISCUSSES PLANNED, MARKET ADJUSTMENT

HK270621 Beijing JINGJI YANJIU in Chinese No 10, 20 Oct 80 pp 3-11

[Article by Liu Guoguang (0491 0948 0342) of the Economic Research Institute of the Chinese Academy of Social Sciences: "A Brief Discussion on Problems of Planned Adjustment and Market Adjustment"]

[Text] I. Market Adjustment is not an Expedient Measure

Since the Third Plenary Session of the Party Central Committee, many localities and departments have conscientiously implemented the instructional principle of the Party Central Committee of working according to economic laws. They have preliminarily reformed the economic system. One important reform is to adopt market adjustment in the production and circulation of some products. In conjunction with other reforms such as expanding the power of the enterprises to act on their own, this reform has begun to play an important role in enlivening our economy.

Actually, market activities should not have been a new phenomenon. Because state planning cannot be all-embracing, over the past years the production and circulation of some products should not have been completely planned directly by the state, but should have been partially conducted by the enterprises through various forms of purchasing and selling activities in the market, outside the scope of planning. However, because of ideological and theoretical taboos, such partial "market adjustment" never gained a legal status in the socialist economy, the overall economic activities were restricted by the rules of traditional, simplistic planned adjustment and bureaucracy gradually grew in economic life. Consequently our economic system gradually became rigid and its various links lacked vitality. In spring last year, our economic theorists began to break through some forbidden areas and the following principle for practical work was put forward: Integrating planned adjustment with market adjustment, putting market adjustment first and paying attention to fully bringing the role of market adjustment into play. Subsequently, market adjustment activities enjoyed new developments. Over the past year or so, we began to leave some gaps in the systems of planned distribution (of the means of production) and state monopoly for purchase and marketing (of the means of livelihood). We began to consciously exploit the adjustment function of the market mechanism in circulation and production.

Aside from making up for the inadequacy in the planned tasks for certain products in national economic readjustment, the most important positive result of developing market adjustment activities is that the situation of disparity between output and

demand, which has been impossible to resolve for a long time, has begun to change. In the past, such systems as production by command, planned distribution and state monopoly for purchase and marketing weakened or even severed the horizontal link between the productive enterprises and the consumers in the market. On one hand, the products produced were greatly overstocked, and on the other hand, the products needed by society were in short supply. Enormous waste in the national economy resulted. With the development of market adjustment, the disparity between output and demand begins to diminish. Moreover, the appearance of competition exerts an external pressure on the enterprises and the internal motive force generated by expanding the enterprises' power to act on their own force fully promotes improvements in their management. Therefore, some gratifying progress has been achieved in raising product quality, increasing product varieties, lowering costs and consumption, improving the standard of service and so on. Gone is the old situation in which some vigor in the economy would temporarily occur only with the promotion by an administrative call or would even not occur with such promotion. A new situation has just begun to appear. The results of market adjustment will be more prominent when it develops further.

Market adjustment has appeared in our country's economic arena with a legal status, and this is a new thing breaking the old rules which dominated the economy for years. It has not been greeted with applause from all quarters, but has been viewed with some doubt and hesitation among the applause. Some people have gotten used to the old way whereby the enterprises worked according to orders from higher levels. Now that they are not assigned planned tasks and the enterprises are allowed to seek opportunities in the market, they naturally feel uncomfortable. They say: "We have worked in the factory for 30 years but have never heard that the factory must look for work to do by itself." Some people think that having some market adjustment is an "expedient measure" which must be taken during the national economic readjustment period to make up for the inadequacy in the planned tasks. They hope that after they have tolerated it for several years, market adjustment will be abolished when economic readjustment is accomplished and planned tasks become adequate. Some other people find that during the process of market adjustment and competition, various industries or enterprises differ vastly in their reinvested profits and their achievements, that some localities and departments adopt certain obstructionist measures to protect their own local or departmental interests, that certain irrational redundant production or construction has developed, that some enterprises practice technological obstruction to maintain their own position in competition, that certain unhealthy practices have appeared in competition and so on. Therefore, they think that market adjustment, in particular competition, "causes waste and anarchy." (See "JINGJI KEXUE," ["ECONOMIC SCIENCE"] No 1, 1980, p 78) They hope to go back to the old days soon and abolish market adjustment.

Admittedly, these phenomena do exist in practicing market adjustment. However, they are not inevitable results of market adjustment. Many of them existed before market adjustment. The main cause of these problems is that the old economic systems, characterized mainly by departmental and regional administrative management, and in particular the irrational pricing system, have not changed radically, so that there are contradictions between them and the new reforms, and in addition the work of directing the reforms has not kept pace with developments. These problems are those which occur during an advance. If we push various items of reform forward step by step and strengthen the direction on the basis of summarized experience, the problems will not be difficult to solve.

Therefore, various worries about market adjustment are unnecessary. The practice of preliminary reforms has proved that despite various problems, market adjustment under planned direction is markedly superior to pure planned adjustment by command. Take for example the production and circulation of machinery and generators. In the sector that practices market adjustment, because production is more satisfactorily linked to demand, basically there has been no problem of being unable to sell the products or of substantial overstocking. (On the contrary, market adjustment has helped eliminate the overstocking caused by the original planned adjustment by command.) The contracts involving supply of goods have also been relatively satisfactorily fulfilled. However, according to statistics for the first half of this year, there has been an increasing overstocking of many items of machinery and generators whose production and distribution are still state-planned, and the fulfillment of contracts involving supplies of such goods has been less satisfactory than the fulfillment of contracts by enterprises selling on their own behalf. If we give up market adjustment and revert to the old road of pure planned adjustment, then for a long time we will be unable to solve the problem of the enormous waste of human and financial resources due to the disparity between output and demand and the accompanying low efficiency. Then, the progress of our country's modernization will be greatly hindered. Therefore, the principle of developing market adjustment and combining planned adjustment with market adjustment is definitely not just an expedient measure for the period of readjustment. It should be a very important component in the reform of our system in the future as well as a principle to be permanently adhered to. In the final analysis, this results from the fact that the socialist economy at the present stage is not only a planned economy but also possesses the characteristics of a commodity economy.

II. There Must be a Buyers Market

How can we enable market adjustment not only to play its role during the readjustment period but also to become an inseparable part of our new economic system for a relatively long time in the future? Judging from the experiences of preliminary reforms, practicing market adjustment necessitates certain ideological and material conditions. Market adjustment cannot develop smoothly if a series of ideological forbidden areas are not broken through, such as the traditional concepts that the means of production are not commodities, the law of value does not play an adjusting role, planning and market forces are mutually exclusive and so on. To conquer the forces of habit, eliminate all sorts of worries and further develop market adjustment under the guidance of planning, we must, for one thing, continue to study in depth the theoretical problems about planning and market forces in a socialist economy, incorporate the practice of successful reforms into this theoretical basis and conduct convincing propaganda and inculcation on a wide scale.

For another thing, the experiences from the reforms over the past year or so tell us that it is very difficult to develop market adjustment if we ignore comprehensive equilibrium, if we do not leave margins in our planning and if economic life continues to suffer from shortages. Let us now examine the relevant realities.

Against what economic background has the current market adjustment developed in certain industries? In simple words, it has developed against the background that planned tasks have been inadequate during the national economic readjustment. Take again the example of the machine building and electric power machinery industries.

Because the principle of readjustment was implemented, in 1979 these industries were faced with the situation in which the state planned tasks were drastically reduced, many consumers returned goods to them and many of their enterprises seriously lacked tasks. They could only look to the market for tasks and thus quickly altered the situation wherein their products could not be sold and their tasks were inadequate. Many products satisfied the market demand and their output was quickly boosted. Consider the Sichuan Ningjiang Machine Tool Factory, whose capacity for producing lathes for instruments is 500 sets annually. Last year the state planned tasks amounted to only 260 sets. The factory freed itself from old ideas and boldly launched market activities on its own initiative. As a result, its output last year was more than 600 sets. Aside from the machine building and electric power machinery industries, some other industries which expanded their business through purchasing and selling activities in the market had similar experiences. Take for example the textile industry. Early in 1979, the textile enterprises in many localities suffered from overstocking of products, decreasing commercial purchases and shortages of funds. Many enterprises stopped working or cut production. Output fell. Later various forms of "market adjustment" were carried out and the situation of enterprises stopping or cutting production was ameliorated. Another example is the metallurgical industry. In the past, steel had always been the kind of material the purchase and marketing of which was monopolized by the state. Now some steel has been sold in the market, because the state plans could not distribute all the steel and the commodity departments did not purchase all, so that the enterprises were forced to seek outlets themselves. Thus, the monopoly by the commodity departments was broken and both the supply and marketing of certain varieties of steel became brisk.

What the above examples have in common is that market adjustment in all these industries has been "forced into existence" by the national economic readjustment. Such readjustment is mainly aimed at solving the problem of grave disproportion. To achieve this, we must lower the speeds which had been unrealistically high in the past and reduce society's demand, formerly hinged on capital construction investment. Thus, some industries and enterprises find their products in excess supply and have excess productive capacity due to the reduction in social demand, and they are forced to seek outlets in the market aside from fulfilling planned tasks. Otherwise, not only will their retained profits be affected, but they may be unable to pay wages and to cope with the new situation of the experimental expansion of the enterprises' power to act on their own. This happens to create a favorable condition for developing market adjustment. This situation inspires us to persist in market adjustment. Not only during the readjustment period, but also in our future, long term planning and balancing work, we must pay attention not to set unrealistically high targets, leave various gaps in the national economy or subject various relationships to great strain. We must work according to our capabilities and leave margins and reserves so that the national economy can advance steadily in a relatively relaxed state.

Not long ago, a foreign economist who studies economic reforms in various Eastern European countries came to visit our country. He said that decentralizing reforms of the economic system are incompatible with an economy plagued by shortages; that is, when the economy is suffering from shortages decentralizing reforms of the system cannot be achieved, because the more serious the shortages, the more readily discernible will be the weak links in the national economy. When weak links appear,

the state would often be forced to adopt the means of administrative intervention to solve the problems. Thus, the decentralizing reforms of the economy will develop in the opposite direction, forming a vicious circle. I think that this analysis is reasonably tenable. It is a decentralizing reform to convert a system of pure planned adjustment into one embodying a combination of planning and market forces. In a system of pure planned adjustment, various economic activities are basically determined by the state. When the element of market adjustment is introduced, some power to make economic decisions must be appropriately transferred to many enterprises and individual workers. However, this is difficult to practice when the national economy is in disequilibrium and the supply of various products falls short of the demand for them, because then the state must apply the limited funds and materials resources to the key sectors of items (that is, the weak links) and must distribute them in unified quotas according to the orders of priority. Thus, the state cannot relax production by command, monopolizing purchases and marketing, planned allocation and other systems. It also cannot relax the planned control over the prices of the means of livelihood and means of production so as to allow enterprises and individuals to make their own choices in the market. Consequently the functioning of the market mechanism will be greatly restricted and market adjustment cannot work fully. Moreover, in an economy where supply falls short of demand, the market can only be dominated by the suppliers or sellers. The consumers or buyers have no power and can only subordinate themselves to the power of the suppliers or sellers. Thus, the suppliers may disregard the consumers' demand and care nothing about product quality, product variety, the standard of service and so on, because they need not worry about insufficient buyers for their goods. As the saying goes: "A princess has no worry about getting someone to be married to." Under this condition, there cannot be any competition among the sellers, which is necessary for practicing normal market adjustment. Such normal competition among sellers can only appear when supply exceeds demand, so that the market is not dominated by the sellers and the buyers can exercise their due consumer sovereignty.

Thus, a prerequisite for developing normal market adjustment is to let social production exceed society's immediate needs so that the supply of commodities exceeds the demand backed by real purchasing power and that a consumers' or buyers' market can be established. Of course, the "buyers' market" we need is a limited one, because the excess of output over immediate needs and the excess of supply over demand cannot exceed a certain limit, just as there is a limit for anything. This limit is determined by the ability to insure the appearance of the necessary competition among the sellers and the formation of a reasonable quantity of social reserves. Surplus output in excess of this limit will also result in waste. Therefore, this slight excess of output over immediate needs is basically different from the crisis of overproduction in a capitalist economy, caused by inadequate purchasing power. The principle of having output slightly exceeding immediate needs and supply slightly exceeding demand not only applies to the market adjustment in the production and circulation of individual products, but is even more essential to the whole national economy. Only when the aggregate supply of social commodities slightly exceeds the aggregate demand can a limited buyers' market appear within the scope of the national economy so that a good condition is created for practicing the integration of market adjustment with planned adjustment. This can only be achieved through controlling the purchasing power formed by accumulation and consumption so that it is slightly smaller than and not larger than the national output. This is the prime problem to be solved by the state's macroeconomic policy and the comprehensive equilibrium

in national economic planning. Suppose we do not do this, but as in the past, always overly expand the scale of capital construction investment and the extent of our fronts, so that via a series of chain reactions society's aggregate demand greatly exceeds the aggregate supply of social commodities and a vast gap between the production and use of national income appears. Then, we cannot have the necessary limited buyers' market and market adjustment cannot develop normally. Therefore, always paying attention to leaving margins in the rate of national economic development and keeping reserves in national economic development and keeping reserves in national economic planning is extremely important to developing market adjustment and enlivening the economy. Thus, normal market adjustment in a socialist economy cannot only exist independently of the restrictions of national macroeconomic planning, but presupposes a correct macroeconomic policy and comprehensive equilibrium in national economic planning.

III. Slabs? Permeation? Colloid?

When the economics circles discussed the law of value last year, an important achievement was that they relatively thoroughly discarded the old concept of viewing planning and market forces as mutually repelling and incompatible. They unanimously believed that the two things can be integrated in a socialist economy. However, what is the nature of their integration? Is it like putting slabs together or in the form of mutual permeation ("each one existing in the other")? People did not have the same understanding. After the discussion, most comrades seemed to have accepted the viewpoint that the two kinds of adjustment should be integrated in the form of mutual permeation. I also stick firmly to this viewpoint. This question seems to be a trivial argument about a concept. However, it is actually closely related to understanding the process of reforming our country's economic system and closely related to the proposed models of reform. I think it is necessary to discuss it further.

I still believe that as a model of reforming our country's economic system, the relationship between planned and market adjustment should not be integration "in the form of slabs" but should be a relationship of mutual permeation. However, it is not enough to stop here. We must analyze this proposition further, because there may be two kinds of mutual permeation. First, the entire national economy is divided into two parts (or two blocks), one being the domain of planned adjustment and the other the domain of market adjustment. Each part is permeated by an element of the other kind of adjustment. Second, the whole national economy is not divided into two blocks, and planned adjustment and market adjustment fuse into a single entity, each permeating the other in a unified colloid [term as published]. How should we view these two kinds of mutual permeation? Which model should we adopt in reforming our system?

Judging from the practice of reforming our system over the past 2 years, the process of developing market adjustment often starts with breaking the control of pure planned adjustment and the appearance of a block of "market adjustment" beside planned adjustment by command. Such integration "in the form of slabs" of planned and market adjustment is still temporarily an undeniable objective necessity. It is even progress compared with the former pure planned adjustment which excluded the market mechanism. For example, over the past year or so, the means of production have started to break the restriction which excluded them from the category of commodities and have gradually entered the market. This is important progress. That portion of the enterprises'

production or marketing activities arranged by themselves according to the needs of the market is called "market adjustment." That portion of production, purchases or distribution still commanded by the state's planned targets is called "planned adjustment." People use percentages to indicate how these two kinds of adjustment are integrated. For example, we may say that in the total value of the industrial output of Jiangsu Province last year, market adjustment accounted for 40 percent and planned adjustment 60 percent. Here "market adjustment" refers to that portion of the output produced or marketed by the enterprises themselves in various ways. "Planned adjustment" refers to the tasks assigned by state command and planning. This is a clear example of integrating planned adjustment with market adjustment "in the form of slabs."

The integration of planned adjustment with market adjustment in the above sense, namely "in the form of slabs," is an external integration within the national economic aggregate. Of course, such external integration alone is inadequate. They must also integrate internally, namely, in the form of mutual permeation. In view of certain undesirable phenomena, such as blindness, occurring in the portion already practicing market adjustment, the state should strengthen its noncommanding planning guidance and consciously adopt various economic means to adjust such phenomena. That is, the element of planned adjustment must permeate through the block of market adjustment, so that market adjustment will be compatible with the requirements of macroeconomic state planning. On the other hand, in that block still commanded by state planning, the defects such as the disparity between production and marketing must also be adjusted by more intensively using value levers such as pricing, taxation, loans and so on. Then the element of market adjustment can gradually permeate through the block of planned adjustment. Moreover, directive planning can gradually change into planning which provides guidance or reference, so that the share of market adjustment integrated into planned adjustment can expand. Therefore, within the national economic entity, the two kinds of adjustment permeate each other within both blocks, each of which represents one kind of adjustment. When the scope of directive planning continues to diminish and the scope of nondirective planning guidance and the scope of using value levers for adjustment continue to expand, a unified colloid will finally be formed which fully utilizes the market mechanism under the guidance of nondirective state planning or social planning, and which closely integrates planned adjustment with market adjustment.

Thus, we can also discover that the integration and permeation of planned and market adjustment "in the form of slabs" is a transitional phenomenon in reforming the system. The two kinds of adjustment cannot permanently coexist in the form of integrated slabs. That is to say, such integration is not the model we want to establish in reforming the system. Let us admit that the socialist economy is a commodity economy, and believe that both the means of production and the means of subsistence must be taken as commodities in their production and circulation. Then an inevitable conclusion is that we cannot always let only part of the products be produced and circulated as commodities, which are adjusted by the market mechanism, while refusing to take the rest of the products as commodities in producing and circulating them, so that they can only be adjusted by directive planning. That is, we cannot let these two slabs coexist permanently, because this is illogical. The only logical conclusion is that the production and circulation of all products must follow the principles of the socialist commodity economy and satisfy the requirements of the socialist planned economy, and must ultimately be unified in the colloid which

integrates the two kinds of adjustment, subjected to market adjustment under the guidance of nondirective state planning. I believe that this alone is the model we must establish in reforming the economic system in the future.

It is a matter of direction and principle to change directive planning into indicative planning and to practice market adjustment under the guidance of state planning within the scope of the entire national economy. After reforming our system, the new economic adjustment system formed will naturally be more complicated than what is described above. It will be inappropriate to abruptly abolish directive planning for some important products which are essential to the national economy and the people's livelihood, and the supply of which cannot be quickly increased to eliminate the excess demand. The directive planning for such products can only be abolished gradually when conditions become ripe. Even if overall reform is accomplished, under special conditions the production and circulation of individual products may have to be directly adjusted by directive planning if necessary. In particular, under certain conditions of emergency, direct adjustment by directive planning is quicker than adjustment through the market mechanism and can be conveniently manipulated by the state. Such coercive means cannot be completely discarded. On the other hand, there may exist free markets outside the scope of what is guided by state planning, such as market fairs in the countryside and towns. However, as exceptions to the rule, directive planning will be limited to temporary use on certain individual occasions and free markets will only exist in the crevices of the unified colloid mentioned above. The most massive and important part of economic life will be market adjustment guided by planning.

Thus, after overall reform is accomplished, our adjustment system will embody the following three things. The first is market adjustment guided by planning. This will be on a large scale and will be the mainstream. The second is planned adjustment in the form of command. This is exceptional and transitional. Every time this means of administrative command is used, it is necessitated by some political and economic situation, and when such situation vanishes, such planned adjustment in the form of command should change over to the road of market adjustment guided by nondirective planning. The third thing is adjustment by the free market. This is on a small scale. Some comrades believe that the criterion for distinguishing between these three kinds of adjustment is whether the law of value and the economic levers involving the category of value are consciously used. They believe that the characteristic of consciously using the law of value for adjustment is present only in the system of market adjustment guided by planning, and that this characteristic is absent in both adjustment by directive planning and adjustment by the free market. This view is incorrect, because in the future, even on the rare occasions where directive planning is adopted, we must also not neglect the law of value and we must combine planning with such means of adjustment as pricing, taxation and loans. On the other hand, the so-called free markets cannot be completely free from the influence of state economic policy and planned adjustment. In a socialist economy, an absolutely free market is nonexistent. I think that the three kinds of adjustment differ in the means of organizing the adjustment. The first kind of adjustment, namely market adjustment guided by planning, involves not only the conscious use of the law of value and the economic levers related to the category of value, but also a process of planned coordination, consultation and agreement. This process involves economic management agencies and social coordinating agencies at various levels as well as economic conglomerates and grassroots economic units

of various forms. In accordance with the requirements of macroeconomic state planning, they must achieve coordination and equilibrium at each level, working from lower levels upward to higher levels, and all levels having to combine together. The second kind of adjustment, namely direct adjustment via directive planning, practiced on rare occasions, involves administrative orders which assign tasks to lower levels and which may be augmented by economic means. However, such adjustment does not necessarily involve the process of coordination, consultation and agreement. The third kind of adjustment, namely adjustment by the free market, does not involve such organized and planned coordination at all.

IV. Should Planned Adjustment be the Principal Kind of Adjustment?

Should planned adjustment be the principal thing in the combination of planned and market adjustment? Some comrades disagree with this way of putting things. They say that this will lead us into "the theory of slabs," because this suggests that the two kinds of adjustment are not integrated internally but can be separated.

Actually, "the theory of slabs" proposes that adjustment by directive planning and market adjustment guided by nondirective planning will permanently coexist, such coexistence being the ultimate model for reforming our system. The error of this concept has been mentioned. However, when we say that the integration of the two kinds of adjustment "in the form of slabs" cannot be our ultimate model for reforming the system, we do not mean that objectively the two kinds of adjustment cannot coexist during the reform process. Of course, each kind of adjustment, when coexisting with the other, will be permeated by an element of the other. If objectively integration "in the form of slabs" undeniably exists during the reform process, then we need not refuse to discuss which should be the principal kind of adjustment for fear of being led into "the theory of slabs." Moreover, even if integration is not "in the form of slabs" but is an integration in other forms involving the unity of opposites, there is always the question of which one will be the principal side in the entity.

I believe that in the current process of developing market adjustment, to put forward integrating the two kinds of adjustment and taking planned adjustment as the principal kind merely reflects the actual situation and objective needs of the reform of our system. It has been said that along with the gradual implementation of reform, planning in the form of command issued by the state to lower levels will gradually decrease. However, at the present stage, the production and circulation of a substantial portion of important products must still be directly controlled by the state via assigning planned targets to the lower levels. In social production, the share of the portion adjusted by the market (that is, the portion whose production and marketing is arranged by the enterprises themselves according to market demand) is still small. According to a preliminary estimate made in the first half of this year, the portion of this year's total value of national industrial output, created through market adjustment, amounts to only 15 percent. That is to say, over four fifths of the value of industrial output is still directly planned by the state. Therefore, to say "taking planned adjustment as the principal kind" merely reflects the current reality. Suppose in the future the scope of directive planning gradually diminishes, let us say to below 50 percent of the total output value. Even so, for a period of time the most important portion of the most important products affecting the national economy and the people's livelihood will be directly adjusted by directive

planning. The state's direct planning of and control over the production and circulation of such products will considerably affect the overall economic development. Therefore, such planned adjustment will still play a leading role in the whole national economy.

However, suppose we are talking not about the situation during the reform process, but about the model of the new economic system after reform is complete. Then, we must further study the idea of "taking planned adjustment as the principal kind of adjustment" in the combination of the two kinds. If what we call "taking planned adjustment as the principal thing" still refers to direct adjustment via directive planning, then along with the transition from directive planning to guiding planning within the scope of the national economy, there cannot be any more "taking planned adjustment as the principal thing" in the above sense. This is because in the entire national economic adjustment system, the directive planning necessary for individual occasions will not play a decisive and leading role.

Leaving alone the question of directive planning, should we take planned adjustment as the principal thing in the new system in which planned adjustment and market adjustment are closely integrated into a unified colloid? There is no simple answer to this question. Last year, we analyzed this question in an article. (See Liu Guoguang and Zhao Renwei: "Several Questions on the Relationship Between Planning and the Market," HONGQI, No 9, 1979) The main idea is that both planned adjustment and market adjustment must reflect the requirements of objective laws in the socialist economy in adjusting the equilibrium between output and needs, so that social labor (living labor and materialized labor) can be rationally and efficiently used according to the proportions of social needs. Judging from this point, both market adjustment and planned adjustment are consistent. If we consider their consistency alone, there is no question which is the principal one. However, objectively there are contradictions between these two kinds of adjustment, because in a socialist society the objective basis for practicing the planned economy differs from that for the existence of the market mechanism. The objective basis for the socialist planned economy is that people have identical, basic interests, on the basis that the means of production are publicly owned. However, the objective basis for the market mechanism is that in the state of socialism people have different economic interests. Under general conditions, the policies in state planning emphasize the problems from the macroeconomic viewpoint and from the viewpoint of society's overall and long term interests. However, the choices of individual commodity producers and consumers in the market are often limited to a microeconomic scope, with special attention to partial and immediate interests. The market activities of these commodity producers and consumers, determined according to their own interests and preferences, as well as the distribution and utilization of human, financial and material resources, resulting from their decisions and actions, may not all be compatible with society's overall interests and may all be economically rational. The unity of and contradictions between market adjustment and planned adjustment actually reflects the unity of and contradictions between the partial interests of enterprises and individuals and the overall interests of society and the country. When contradictions arise between these two kinds of interests, partial and immediate interests must be subordinate to the overall and long term interests, and correspondingly, market adjustment must be subordinate to planned adjustment. In this sense, we must take planned adjustment as the principal kind of adjustment and simultaneously fully bring the role of the market mechanism into play when we practice the system of integrating planned adjustment with market adjustment.

Some comrades completely negate the way of putting things in the idea: "Taking planned adjustment as the principal thing." First, they do not perceive that the transition from the integration of the two kinds of adjustment "in the form of slabs" to their integration "in the form of a unified colloid" is an objective and inevitable process. Second, they can perceive only the consistency of but not the contradictions between the two kinds of adjustment. This situation is in line with their understanding of the nature of the socialist economy and economic laws. Among the comrades holding such a viewpoint, some only agree that the socialist economy is a commodity economy but avoid admitting that it is also a planned economy, or relegate planned development to an attribute of the socialist commodity economy. Some comrades treat planned adjustment as similar to market adjustment and simplify it as a mode of expression of adjustment according to the law of value. However, I think that whether the socialist economy is a planned economy is a major question of principle we cannot evade. The socialist public ownership results in identical interests for all, and this is the foundation on which the planned economy is built. Though not yet perfect, the planned economy is the basic characteristic distinguishing the socialist economy from the capitalist economy. This is undeniable. Moreover, planned adjustment also cannot be simply summarized as a mode of expression of the adjustment according to the law of value (despite the qualification: "Consciously used by the state"). We know that market adjustment is genuinely adjustment according to the law of value. When the individual commodity producers and consumers choose their own actions in the market according to the requirements of the law of value, they mainly consider their own immediate interests without caring about the effects of their choices on the overall long term interests. Probably none of us here will explicitly advocate entrusting the overall long term interests to the "invisible hand." When the state or society adjusts economic life in a planned way, it also cannot merely "imitate" the movements of that "invisible hand," that is, merely consciously using the law of value. It should also consider the requirements of the basic economic law of socialist and other objective laws, guiding economic development into the socialist road and direction. It must be known that although the law of value is an extremely important one meriting our great attention, it is nevertheless not the sole adjusting agent in socialist economic development. We cannot rely on it alone to insure the socialist road and direction.

V. Compatibility of Macroeconomic Policies with Microeconomic Activities

It has been said that in planned adjustment problems are generally considered from the macroeconomic viewpoint and from the interests of overall national economic development, but when enterprises and workers choose their own targets and modes of action in the market according to market conditions and changes in the demand-supply relationship, they generally consider their own biased interests. How can the intention of the state's macroeconomic policies, embodied in medium and long term plans, be put into effect in the enterprises' and individuals' microeconomic activities, and how can the former be tested and corrected by the latter? This is the key problem in integrating planned adjustment with market adjustment.

When discussing this problem recently, some comrades listed a wide range of ways of linking up macroeconomic policies and microeconomic activities, such as controlling principal material resources, major projects and the scale of capital construction investment, using such economic levers as pricing, taxation and loans, establishing information and forecast systems, economic legislation and judicature, social

supervision systems and so on. These are naturally very important matters. However, it is not clear which of them is the most important channel for linking up macroeconomic policies and microeconomic activities. When summarizing the integration of the two kinds of adjustment as practicing adjustment by consciously using the law of value, some other comrades are in effect saying that consciously using those economic levers related to the category of value (such as pricing, taxation, loans and wages) is the most essential channel for linking up macroeconomic policies and microeconomic activities. This view deserves great attention, because consciously using the law of value for adjustment not only embodies planned adjustment (because of the factor of consciousness) but also embodies the element of market adjustment (because of the adjustment according to the law of value). However, I feel that this view is still inadequate, because it neglects an important aspect of socialist economic adjustment, namely the organizational means of adjustment. As stated before, one very important criterion that distinguishes the adjustment mechanism incorporating planned and market adjustment from adjustment by directive planning or adjustment by the free market is that the former necessitates a process of organized planned coordination, but the latter two do not involve such a process. I think that organized planning, coordination and consciously using value levers are the two most important channels linking up the state's macroeconomic policies, embodies in medium and long term planning, and the enterprises' and individuals' microeconomic activities in the market. Through these two channels, the intention of the state's macroeconomic policies is put into effect in the enterprises' and individuals' microeconomic activities and are tested and corrected by the latter.

As mentioned before, the job of planned coordination is mainly to work from lower to higher levels and upward to even higher levels, integrate higher levels with lower levels and achieving equilibrium at each level. Between the enterprises and between or within various forms of economic conglomerates, problems of equilibrium between demand and supply, combining funds or cooperation in working may be solved via horizontal market links or through agreements. If so, the enterprises or conglomerates should be free to solve the problems themselves by signing agreements or contracts themselves without presenting the problems to higher levels for solution, under the constraint that they do not obstruct the realization of the state's macroeconomic policies. Only those problems impossible to solve at the lower levels should be passed up to official coordinating agencies and economic management agencies for solution and attainment of equilibrium. Of course, in medium and long term planning, certain important tasks and items of development affecting the overall national economic development should be assigned from the top to lower levels and implemented in the form of consultation, agreement and coordination. Thus, the grassroots enterprises can be freed from unnecessary administrative interference from higher levels, and the state's leading economic agencies can free themselves from tedious administrative work and devote their efforts to studying and formulating principles and policies as well as studying solutions to strategic problems in economic development.

Consciously using various value levers in addition to planned coordination is also an extremely important channel which links up the state's planned macroeconomic targets and the enterprises' and individuals' economic activities. The state must flexibly and effectively control prices, wages, taxes and interest rates. Through these "parameters," the state should influence the enterprises' and individuals' economic activities, bringing them in line with the requirements of the state's

macroeconomic policies. In particular, suppose rather serious contradictions occur between the state's macroeconomic planned targets and the economic choices of grass-roots units or individuals, during the process of achieving equilibrium at each level with the lower levels first or implementing planned coordination at each level with the top levels first. Then, it is even more necessary to effect coordination through varying these "parameters" and readjusting the relations involving the interests of various parties, or to amend the targets of macroeconomic state planning, bringing them in line with the reality. If there is planned coordination alone while the value levers are not consciously used, and the relations involving the interests of various parties are not readjusted, then planned coordination will become empty talk. On the other hand, if we merely exercise some control over the economic parameters without conducting organized planned coordination, then our work will not be significantly different from state intervention in economic activities in capitalist countries, or significantly different from adjustment by the free market (because the free market is affected by state economic policies but does not practice organized planned coordination). Therefore, both organized planned coordination and the conscious use of value levers are most important to linking up the state's macroeconomic policies and the enterprises' and individuals' micro-economic activities, and to integrating planned adjustment with market adjustment. Of course, this does not imply that other means are unimportant. Systems and measures such as economic legislation and judicature, information and forecast systems, social supervision agencies and so on should also be established or undertaken simultaneously as far as possible. They should be combined into a complete set. Then reforming the economic system can be successful.

To do a good job of planned coordination and use the value levers well, we must study and solve many problems about such coordination and levers. However, the overall prerequisite is to have a medium or long term plan which embodies scientifically worked out comprehensive equilibrium and which leaves room for maneuver. In the process of practicing planned coordination or using economic levers for adjustment, the state should not and will be unable to take up all tasks, whether huge or minor. Its attention should be focused on macroeconomic problems embodied in medium and long term plans, such as the direction of development and growth rate of the national economy, the distribution of national income between accumulation and consumption, the scale of investment and the main direction of distribution, the composition of major industries, the composition of income and so on. If the medium and long term plans themselves are not based on adequate scientific reasoning or data, if various macroeconomic policies contradict themselves, or if the overall national economy is in disequilibrium, then we will not be able to correct or remedy the situation simply by liking for methods of solving partial problems, and all kinds of planned coordination, value levers or other market means will be useless. On the contrary, if the overall national economy is in equilibrium as a result of good macroeconomic planning, then no great confusion will occur no matter how the enthusiasm of part is brought into play. If in addition we satisfactorily employ such means as planned coordination and economic levers, we can achieve vigor without confusion and control without rigidity. A key problem here is, as mentioned before, to plan the scale and proportions of accumulation and consumption well, to meticulously control the growth of purchasing power in both investment and consumption, so that it will be slightly smaller than the national income growth rate, and to maintain equilibrium in the four major areas of finance, loans, material resources and foreign exchange. Then, a consumers' market or a limited buyers' market, as

mentioned above, will always exist in the national economy. This is the key principle which provides a framework capable of containing any changes. If we can master this principle well, then no matter with what vigor or in what directions the enterprises and individuals carry out their activities, we need not worry about the results. Their activities will not break through our framework.

Of course, it is a very complicated problem to master well the scale and proportions of accumulation and consumption and to satisfactorily control the growth in the purchasing power which is the sum of investment and consumption. Some economists say that a highly centralized economic system is vulnerable to high accumulation rate, excess investment and various accompanying evils. However, we find that certain countries which have reformed their systems and which have given enterprises power to manage themselves have also been unable to solve these problems completely. We need to base ourselves on summarized domestic and foreign experiences, both positive and negative, integrate theory with practice, and conscientiously conduct research to find solutions to the problems. (August, 1980)

CSO: 4006

ECONOMIC PLANNING

FIVE SICHUAN ENTERPRISES GEARING PRODUCTION TO MARKET DEMANDS

Beijing RENMIN RIBAO in Chinese 21 Sep 80 p 2

[Article by Fan Shi [4636 8902]: "New Door Opened to Market Adjustments; Five Experimental State-Owned Enterprises Which Are Responsible for Their Own Profits and Losses in Sichuan Province Are Filled With Vitality"]

[Text] Five experimental state enterprises in Sichuan Province that have established independent accounting, on which the state levies taxes, and that are responsible for their own profits and losses have combined restructuring of the national economy with efforts to improve production operations to open a door to market adjustments.

The instituting in enterprises of responsibility for their own profits and losses is a major reform in the industrial management system and is, in a certain sense, a test of the enterprise's ability to survive and compete as well. The test enterprises have greater autonomy in planning, marketing, pricing, and goods and materials; this has opened a broader field of activity for the enterprises to operate in accordance with objective economic laws, to develop production, and to enliven the economy. At the same time, it has emphasized the enterprises' responsibilities, requiring that cadres in these enterprises both master the pulse of the marketplace and learn to do business. Some leadership comrades in plants said with great perception: "With the institution of responsibility for profits and losses, enterprises are like swimmers in billowing seas. Those who can swim could give a good account of themselves, but those who cannot are forced to learn to swim or else will be in danger of going under."

In order to open up markets and broaden the marketing of goods, the Chongqing Clock and Watch Company especially transferred cadres versed in the business to establish a "development department." The leadership cadres in this company said quite frankly that the company's establishment of such an organization to collect and grasp pertinent domestic and foreign scientific and technical intelligence was for the purpose both of formulating the company's development plans and of comparing inherent features such as product quality and product varieties, and that it was also a measure of economic wits and commercial foresight. The other several experimental enterprises also set up similar organizations. Examples are the economic research unit in the Chengdu Electric Wire Plant and the Name Brand Creation Office of the Sichuan No 1 Cotton Plant,

both of which were established to develop markets. The plant director and managers in these experimental enterprises felt that the enterprises now face a situation of internal and external pressures. This is a good situation since it forces personnel within enterprises to use their brains and show their skills within the context of state-formulated policies, and to sweep away the past situation of spinning a cocoon around oneself or becoming a pond of stagnant water.

Once enterprises have implemented responsibility for their own profits and losses and cater to the needs of the market, objectively they are impelled toward a more precise definition of their production goals. Formerly these plants rarely looked into whether the products they turned out satisfied the needs of the marketplace. Now the marketplace has become a stage on which enterprises face countless people, and they must produce whatever their customers want them to produce. In addition to restructuring its organization to enhance its product-marketing forces, the Chengdu Electric Wire Plant also has set up sales promotion points and retail departments in some cities.

The result of this action has been a new atmosphere not seen for many a year. It has gotten rid of the "bureaucratic plant" attitude of waiting for customers to come to the door and relying on upper echelons. The state plan for the first half year amounted to only a small part of the production capacity of the Chengdu Electric Wire Plant. The plant's leaders applied the marketing authority for products stipulated for experimental enterprises and sent people out to investigate the market, to interview customers, and to solicit the test-manufacture of new electric cable products. At the same time, it cooperated with research and production components to manufacture special electric cables and electric wires. As a result, plant output during the first half of the year not only did not decline, but it increased by 41 percent over the same period last year. The Southwest Electric Plant changed the past situation in test manufacture of new products, which was a "need to get a high price and difficulties in going into production," to go all out for replacements and exchanges. Any time the plant produces a new product, it is sent to the customers concerned for use free of charge, and only after the customer is satisfied is a contract formally signed.

The market is the touchstone for testing whether an enterprise will succeed or fail. Formerly, enterprises in many part of Sichuan, when faced with competition by products from advanced industrial areas on the coast, sought refuge in the province's isolation. Nowadays, these experimental enterprises have the independence and the autonomy to work out their own marketing and production planning and to create favorable conditions for the enterprise to make the most of its advantages and to do a good job of commodity production. The Sichuan No 1 Cotton Plant, which has its own spinning, weaving, printing, and dyeing equipment, uses the advantages that a large integrated enterprise provides, puts efforts into quality, variety, and price, and depends on small profits but large turnover. Once each day, on average, two new varieties of designs, sizes and colors are sent to the market. This constantly satisfies the fancies and the demands of customers for many varieties. Because the varieties of its products satisfy needs, prices are low and the products not only are marketed within the province but also enter markets on the coast. They say that all that is needed is a liberalization of policies, improvements in merchandising, and making the most of advantages, and many products from Sichuan would vie in markets on the coast.

Implementation of responsibility for profits and losses also emboldens enterprises to push into international markets. Regulations provide for these experimental enterprises to enter into direct negotiations with foreign traders and to divide foreign exchange earnings. Formerly the Chongqing Clock and Watch Company exported only a small number of its alarm clocks, but now active negotiations are underway with foreign traders for further expansion of the varieties and amounts exported.

Comrades in experimental enterprises feel that there presently are numerous problems requiring study and solution. For example, the proportion of commodities that some experimental enterprises are now marketing by themselves exceeds quotas under the state plan. Does this violate the principles of economic planning? Additionally, the state currently controls most raw materials, and some are entirely allocated for the state plan, so if cotton and textile plants want to increase output, they come up against the problem of insufficient raw materials. Is it possible to increase the channels for raw materials available to the enterprises? For example, might enterprises form a link with units producing raw materials to buy directly from them the raw materials needed to increase output, etc?

9432

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ECONOMIC PLANNING

EXPORT OF LABOR-INTENSIVE MERCHANDISE DISCUSSED

Beijing RENMIN RIBAO in Chinese 17 Oct 80 p 5

[Article by Rong Wenzuo [2051 2429 0146]: "Vigorous Development of Labor-Intensive Industrial Goods for Export; Proceeding From Ricardo's Comparative Cost Theory"]

[Text] The bourgeois classical economist David Ricardo proposed the famous "comparative cost theory" in discussing foreign trade. He said "A country which possesses extremely great advantages in machinery and technology, and which is consequently able to produce goods with vastly less labor than a neighboring country, even if its own land is more fertile and the labor it requires to grow grain is less than that of a grain-exporting country, might still exports its goods in order to import some of the grain required for consumption in its own country." For example, if two people are able to manufacture both hats and shoes, and one of these people is better at both occupations than the other but only one-fifth or 20 percent better in the making of hats, whereas he is one-third or 33 percent better in the making of shoes, wouldn't it be more profitable for the better of the two men to concentrate on making shoes while the other man concentrates on making hats?" ("Political Economics and Taxation Principles," Commercial Press, 1962, p 114, footnote) This is another way of saying that both parties can benefit from exchanges under circumstances other than that in which the labor-productive rate for exports in one individual country is higher than in the other. Furthermore, when a country's rate of labor productivity for two kinds of goods is higher than or lower than that of another country, both countries can benefit from the conduct of international trade.

This comparative cost theory has a scientific aspect to it. Below I intend to relate this comparative cost theory to the problem of the development of labor-intensive industrial goods for export in a discussion of several of my own ideas.

I.

Currently China, like many countries and regions of the world, including countries of the vast Third World, has trade contacts. But in the development of China's labor-intensive industrial goods for export, China's principal targets are the industrial advanced countries and regions of Japan, the United States, and Western Europe. In contacts with these targets, we must "know ourselves and know our adversaries." For this purpose, the comparative cost theory contains sections that we would do well to apply.

Take neighboring Japan, as an example. This is a highly industrialized country that is extremely advanced technologically. In some capital (or technological) intensive industries, such as the steel industry, the automobile industry, the electronics industry, the petrochemical industry, and the chemical fertilizer industry, Japan holds positions of international dominance; the Japanese labor productivity is from more than tenfold to several score greater than ours, the variety of their products is greater, and the quality good, and cost and prices so low that we can scarcely compare. In the case of the aforementioned several kinds of goods, we not only cannot enter the Japanese market, but it is even difficult to compete with them in the international market. On the other hand, for items such as clothing, furniture, shoes and hats, and dinner service, even though the degree of mechanization of these industries in Japan is greater than ours and the labor expenditure is less than ours, nevertheless, inasmuch as there is a limit to their labor resources and because their wage scales are higher, the gap between the two countries is narrower in these industries and we possess a relative advantage. This is particularly true of numerous products of arts and crafts industries. China possesses skills in the manufacture of handicrafts, is noted for its varieties and quality, and has a historical tradition in handicrafts. In this we have a greater relative or even an absolute advantage with which Japan and the other advanced capitalist countries cannot compare.

We are unable to compete technologically in the manufacture of some articles used in everyday life and are in a position of relative inferiority in them. Yet, through artistic designing and tasteful processing, we can make the most of our advantages to make up for what we lack otherwise. Handpainting and intensive decoration of ceramic and porcelain manufactures, engraving of designs on glassware, and inlaying and carving of furniture are examples. The demand for arts and crafts that have a practical use and for artistic industrial items that are used in everyday life is a trend in the development of markets in industrially developed countries that has come about as the purchasing power of the people has increased, and the international market for such goods is expanding. We should take conscious advantage of this trend and make the fullest use of our own strengths to vigorously develop such goods for export, endeavor to increase the foreign exchange derived for them, and obtain more foreign exchange for the state.

In the case of some labor-intensive industrial products for export, we can use the relative superiority of others to make the most of our relative advantages and obtain better economic benefits. For example, the export of clothing is relatively beneficial for us. Were we to combine our export of clothing with the import of certain technical equipment for the production of clothing, we would derive even greater benefit. In order to better develop China's exports of clothing, during the past several years we have introduced from Japan, the United States, and Western Europe some high-speed, fine performance, highly specialized individual machinery and assembly lines, thereby increasing the competitive performance of the clothing industry in international markets and creating favorable conditions for further increases in exports. Through the aforesaid methods, we have both made the most of our own special skills and made use of the special skills of others. From the standpoint of the other countries, they likewise have made use of their own skills and of our skills. Thus, this has been beneficial to both parties.

Some comrades feel that in the process of realizing the four modernizations, the composition of our exports should gradually change, thus spreading the idea that our development of labor-intensive industrial goods for export is simply an admission of the inadequacy of our own technology and a willingness to lag behind. Such a perception merits discussion. From a long-range point of view, I completely concur in a gradual change in the composition of export products in the course of realizing the four modernizations, with an increase in the proportion of technical intensive industrial goods for export. Yet, at the present stage we still must emphasize the development of labor-intensive goods for export. This is not only realistic and feasible, but it is also helpful in accelerating construction of the four modernizations. Admitting that we are backward is not the same as being willing to remain backward. Acting realistically, making the most of our strengths while avoiding weaknesses, and striving to export more, to increase foreign exchange, and to import more, are, fundamentally speaking, the ways to narrow the gap with industrially advanced countries in the shortest possible time and to create the conditions for a future gradual change in the composition of exports. This is in no way the same thing as being willing to remain in a backward condition.

II.

David Ricardo's comparative cost theory contains a kernel of good sense, but it also contains the bias of the bourgeoisie. Founded on the theory of free trade, set in the historical conditions of the times, it was in the service of the massive occupation of the markets of other countries by cheap British industrial manufactures, of the obstruction of industrialization of backward countries, and most particularly of the plundering of agricultural products and mining resources from colonial and semi colonial countries. China is an independent, underdeveloped, socialist country. Today we possess a correct perception for dealing with the above two aspects of this theory. It is necessary both to actively use its kernel of good sense to accelerate the realization of the four modernizations, and to bear in mind the historical lesson that advanced capitalist countries will use it to control backward countries. There is fierce competition in the international trade arena. Our national economic foundation is weak by comparison, and our labor productivity rate is low, necessitating the adoption of policies for the protection of trade under different circumstances, and the selective import of various foreign products that will help advance China's socialist modernized construction, while at the same time vigorously organizing the export of products for which returns in foreign exchange are high by comparison.

As regards technology-intensive products, it is necessary to realize that they have both a profitable aspect and a comparatively unfavorable aspect for us as well. From the standpoint of comparative costs, while we are exporting labor-intensive goods, the import at the same time of steel goods, motor vehicles, and electronic computers from advanced capitalist countries would be very worthwhile. However, large-scale imports of such products would be very unfavorable for the development of our comparatively backward motor vehicle industry, electronics industry, and steel industry. This requires the adoption of selective and limited measures. There must be a process of investigation and study to ensure that imported technical equipment meets China's real needs

to the fullest extent possible, and to ensure that attention is given to the economic benefits of imported technology. To the maximum extent possible, we should import only needed raw materials, key spare parts, and a minimum of finished goods, so that the fullest use may be made of the processing facilities and labor force inside China. There should be greater importation of technology and less importation of complete sets of equipment.

Likewise, in the development of labor-intensive products for export one must also look at both the profitable aspects and the somewhat difficult aspects as well. In terms of comparative costs, development of labor-intensive products for export is profitable. But since most industrially advanced countries place high tariffs and restrictive quotas on the import of these kinds of goods, our advantage in them is weakened to a certain degree. Experience has told us that the development of labor-intensive goods is conditional, and in the selection of goods for export it is likewise necessary to give careful attention to the economic benefits. Whenever the rate of foreign exchange earnings for exports is high and the market for the goods is large, there should be large-scale development of exports. When foreign exchange earnings rates are down but foreign exchange earnings are still profitable relative to payments of foreign exchange for imports, active exporting should be done. When even limited exports are truly unprofitable, exporting may be stopped or temporarily suspended.

It should be realized that conditions exist for an increase in the export of quite a few labor-intensive products, and it is only because we have not adopted policies to support and encourage exports that the quantity and proportion exported have been impeded. To give an example: export of real silk crepe de Chine brings less than US \$1 per meter, but silk processed into embroidered clothing by the Shanghai No 2 Embroidered Clothing Plant brings \$7 per meter in foreign exchange when exported. But there is insufficient silk cloth for us to process into embroidered clothing, whereas large quantities of raw silk, crepe de Chine, and silk cloth are exported. This is a problem that very much merits study. At the present time we have no policies that distinguish between and provide different treatment for the export of semifinished products and highly finished products, while taxes currently are levied on export goods of all kinds at every level, and profits increase at every step along the way. Objectively, this leads to the encouragement of exports of raw materials and to restrictions on the export of highly finished products, particularly of highly finished products requiring multiple processes for their manufacture. It is high time for a change in this situation, which is damaging to us. We must actively support and encourage the export of finished manufactures, and it is particularly necessary to support and encourage export of those products that make the fullest use of China's special advantages and intensive labor. Therefore, as a result of heightened awareness, we should formulate suitable program policies.

III.

In the international marketplace, we should take note of both mutual competition and mutual cooperation. Between technically advanced and technically backward countries, the mutual exchange of technology-intensive goods and labor-intensive goods offers benefits to both parties, and thus conditions exist for mutual cooperation, equality, and mutual benefits.

In many of the major capitalist countries there is at present a great slowing down in the speed of development, or even a stagnation and regression. In these countries there is a terrible excess of both capital and goods that are urgently in need of outlets in the international market. China, which is in the process of undertaking socialist modernized construction is, in their minds, the greatest untapped international market. This is a very favorable situation for our socialist modernized construction. In the expectation of equality and mutual benefit, we are truly in favor of introducing from them large amounts of advanced technological equipment (including patents), high-quality raw materials, and needed means of livelihood at fair prices.

Nevertheless, China is a country that adheres to self-reliance in undertaking socialist modernized construction. Leaving aside any discussion of international loans at a particular time and for particular amounts, our capacity for imports depends substantially on the level of our exports. The volume of imports and exports must be kept in virtual balance, with no great disparity between the two. Therefore, whoever wants a good share of the China market must also permit China's goods to take a larger share of the market in their countries. Only a market of interdependence with reciprocal imports and exports can become ever larger. The United States has begun to give China most favored nation treatment, which creates favorable conditions for entry into the American market of Chinese goods and also creates favorable conditions for widening American exports to China. As of today, there are some advanced capitalist countries that try by every means to expand their exports to China while at the same time restricting imports from China in every way. This is very unwise of them.

In international relations, we must vigorously develop not only imports and exports but also cooperative production, joint ventures, joint business offices, and sales promotion offices to develop diversified economic and technical cooperation. In the development of labor-intensive goods, and in particular China's traditional arts and crafts exports, we possess a remarkable advantage. Numerous countries want to cooperate with us, and we must actively engage in this kind of cooperation, following the principle of equality and mutual benefit.

9432

CSO: 4006

ECONOMIC PLANNING

BRIEFS

TIANJIN CIRCULAR ON BONUSES--The Tianjin Municipal People's Government issued a circular on 26 November urging all commissions, bureaus, districts and counties to commendatory rallies. The circular states that commendatory rallies such as municipal labor model rallies or municipal congresses of the advanced which were already approved should instead only emphasize moral encouragement and issue commendatory certificates. It says that no bonuses or souvenirs are to be given at such rallies. The municipal people's government also formulated regulations which urges enterprises to strengthen bonus control and avoid a year-end bonus spree. [Tianjin City Service in Mandarin 0030 GMT 28 Nov 80 SK]

CSO: 4006

FINANCE AND BANKING

BRIEFS

NATIONAL BANK SCIENCE CONFERENCE--A national conference on scientific and technological work in connection with bank operations was held from 16 to 24 October in Hangzhou, Zhejiang. Present at the conference were nearly 100 representatives from the people's banks in various parts of the country, including those in charge of scientific and technological work in the banks. The conference stressed the need for mechanization and computerization of bank work in order to modernize operations. Experience in this respect was exchanged, and a work plan was formulated at the conference. [Hangzhou Zhejiang Provincial Service in Mandarin 1100 GMT 24 Oct 80 OW]

HEILONGJIANG BANK DEPOSITS--Both the rural and urban areas of Heilongjiang Province have witnessed marked increase in bank deposits. As of 20 November, the total amount of the province's bank deposits has hit 1.28 billion yuan, an increase of 440 million yuan over the figure at the end of last year. [SK032344 Harbin Heilongjiang Provincial Service in Mandarin 1100 GMT 1 Dec 80 SK]

JIANGSU STATISTICS BUREAU CONFERENCE--A conference of Jiangsu's statistics bureau directors was held in Nanjing 22-28 November. Over 120 representatives of departments concerned attended the conference. The participants noted that statistical work has become very important following the development of socialist modernization and the reform of the socialist economic structure. Therefore, it is necessary to fully implement the state council's instructions on statistical work and to speedily establish a sound statistical network so that it can provide guidance for the growth of the national economy. [OW011321 Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 29 Nov 80]

CSO: 4006

BRIEFS

OCEANIC PETROLEUM EXPLORATION TECHNIQUE--Beijing, 24 Nov (XINHUA)--The geological survey department under the Oceanic Petroleum Exploration Bureau of the Ministry of Petroleum Industry and the Electrical Engineering Institute of the Chinese Academy of Sciences have jointly developed a new technique for prospecting petroleum and natural deposits under the ocean floor. Applying this technique, the researchers use electric sparks from a capacitor to create earthquake waves in the ocean, record the waves transmitted back to the ocean floor on magnetic tape, and analyze the earth structure from the data obtained and possible petroleum and natural gas deposits. The technique has been used in ground geological surveys abroad, but never in oceanic petroleum exploration. The new technique is easy and safe in operation, has lower cost and higher efficiency than conventional method and does not pollute ocean water and harm marine biological resources. So far, the ministry has equipped 2 of its survey ships with the new technique. [Beijing XINHUA Domestic Service in Chinese 0155 GMT 24 Nov 80 OW]

LIAONING COAL PRODUCTION--Shenyang, 22 Nov (XINHUA)--The Haizhou open coal mine under the Fuxin Coalmining Administration in Liaoning overfulfilled the state plan for coal excavation and stripping for each of the first 10 months of 1980. One of China's largest open coalmines, the Haizhou mine had remained in a disproportionate state in coal excavation and stripping due to superior agencies' policy of seeking high output. This situation has improved this year after readjustment efforts were made. [OW251559 Beijing XINHUA Domestic Service in Chinese 0128 GMT 22 Nov 80 OW]

CSO: 4006

MINERAL RESOURCES

BRIEFS

GOLD PRODUCTION NEWS--Beijing, 26 Nov (XINHUA)--Goldmines run by people's communes in Jilin, one of China's major gold producing provinces, have met 1980 output target 3 months ahead of time. The total gold output was double what it was last year. Gold output in Heilongjiang Province from January to October this year was 12 percent greater than the same period of last year thanks to mechanization. The province has dozens of gold dredgers including three imported from The Netherlands this year. People's communes in Xinglong County, Hebei Province turned out close to 3,000 ounces of gold and over 10,000 ounces of silver in the first 9 months of this year. [Text] [Beijing XINHUA in English 0701 GMT 26 Nov 80 OW]

CSO: 4006

INDUSTRY

BRIEFS

SYNTHETIC KNITWEAR PRODUCTION INCREASE--Beijing, 22 Nov (XINHUA)--At present over 20 provinces, municipalities and autonomous regions in China produce knitwear clothing. It is expected that their total output this year will reach over 2 billion yuan, doubling that of 1978. The knitwear products include coats, shirts, skirts, sportswear, Hawaii shirts and children's wear totalling over 210 million garments. In addition to producing synthetic garments, knitwear enterprises in various localities have tapped their strong points of shorter technological processes and more diversified products to begin developing imitation woolen, imitation silk and other textile products. [Excerpts] [OW230440 Beijing XINHUA Domestic Service in Chinese 0133 GMT 22 Nov 80]

CSO: 4006

DOMESTIC TRADE

SICHUAN PROVINCE EXPERIENCING THRIVING MARKET

OW271218 Beijing XINHUA in English 1204 GMT 27 Nov 80

[Text] Chengdu, 27 Nov (XINHUA)--Correct rural economic policies and competition between different sectors of the economy have added to the briskness of the market in Sichuan, China's most populous province, in the wake of its fourth consecutive good harvest.

Retail sales of consumer goods in the province between January and October were 16.9 percent above the same period of last year, according to the Sichuan Provincial Statistical Bureau. Rural areas witnessed a 25.7 percent increase.

Statistics reveal that at the end of October, inventories were up 9.1 percent over the same time last year. Bank savings were up 85 percent too, suggesting that the market will continue to flourish this winter.

All the products from the peasants' private plots and household occupations can now be sold on the market with the exception of cotton. Timber was not allowed on the market in the past, but now the peasants can buy wood and process it into furniture for sale. They can also slaughter and sell pigs they have personally raised.

Communes and brigades were not allowed to sell their products directly on the market in the past. They can now sell such things as vegetables, fruit, aquatic products, bamboo, rattan and wooden furniture, and even grain, after meeting their purchase and marketing contracts with the state commercial departments.

Commercial departments have changed their practice of monopolizing all the factory products and are now specializing in choice purchases. This has resulted in a remarkable increase in the variety of goods and a general improvement of quality.

Hotels, restaurants, tea houses and photo studios run by urban neighborhoods and other collectives have emerged, ending domination of the service trades by the state and the cooperatives.

Individual enterprise is also playing a role. There are now 3,000 individually-run enterprises in Chengdu, the provincial capital, alone, including shops, restaurants, hairdressing and tailoring outfits. Several hundred tailoring stalls along the streets are helping to make life more convenient.

DOMESTIC TRADE

BRIEFS

HEILONGJIANG TRADE WAREHOUSE--Jiamusi municipal trade warehouse ignored state policies and sold smuggled goods which it obtained on the black market in order to achieve staggering profits. Over the past 8 months, the leader of this trade warehouse acquired 270 minicomputers worth some 15,939 yuan from communes in Chaoyang County, Guangdong Province, and sold them on Jiamusi markets by raising the selling price to some 1.67 times the original price. The warehouse thus made an illegal profit of some 26,200 yuan. The Municipal Industrial and Commercial Administrative Bureau confiscated all income this trade warehouse had acquired through illegal means. It also suggested that departments concerned investigate the work of this warehouse and determine who should be held responsible. [Harbin Heilongjiang Provincial Service in Mandarin 1100 GMT 2 Dec 80 SK]

HEILONGJIANG JOINT VENTURE--Harbin, 20 Nov (XINHUA)--A ginseng and pilose antlar company in the form of a joint venture recently has been set up in Heilongjiang's Mudanjiang Prefecture to engage in unified management, processing and sale of the ginseng and antlars produced by the rural communes and brigades. Since its opening, business has been brisk, and orders have been received from foreign trade departments in Heilongjiang, Zhejiang, Jiangsu, Guangdong, and Sichuan and from pharmaceutical departments in Wuhan, Chengdu and Jilin. It is estimated that by the end of 1980, the six processing plants under the company will complete the processing of 130,000 jin of fresh ginseng. [Beijing XINHUA Domestic Service in Chinese 0136 GMT 20 Nov 80 OW]

NATIONAL TRADE FAIR--Nanjing, 16 Nov (XINHUA)--A national trade fair of tourism products and handicraft articles for domestic consumption closed in Nanjing Municipality on 14 November. More than 34,000 contracts were signed, with the total volume of transactions reaching more than 102 million yuan. This is an increase of 16 percent over the last fair. [Beijing XINHUA Domestic Service in Chinese 0709 GMT 16 Nov 80 OW]

TIANJIN INDUSTRY-COMMERCE COOPERATION--Tianjin Municipality has achieved good results in urging industrial enterprises to sign production-marketing contracts with commercial departments. In the first 9 months of 1980, some 600 industrial enterprises signed such contracts with commercial departments. On 28 November the Tianjin Municipal Economic Commission and the Municipal Financial Commission held a joint conference to exchange experiences in this work. [SK282300 Tianjin City Service in Mandarin 0030 GMT 28 Nov 80 SK]

FOREIGN TRADE

BEIJING REVIEWS PRC-OCEANIA FOREIGN TRADE

OW301209 Beijing Radio in Mandarin to Southeast Asia 0900 GMT 26 Nov 80

[Report on article by (Er Chu), entitled, "Trade Between China and the Oceania," published in Issue No 6 of the 1980 CHINESE FOREIGN TRADE, from the Weekly Program "Construction of China"]

[Excerpts] (Er Chu) says: Since 1972, the People's Republic of China has successively established diplomatic relations with Australia, New Zealand, Western Samoa, Fiji, Papua New Guinea and Kiribati, thereby opening up a new page in China's trade relations with Oceania. In the past 3 years, China dispatched senior government officials, economic and trade delegations and people from industry and business circles to all countries and regions to exchange goodwill visit with them. China held economic and trade fairs in Australia, New Zealand Papua New Guinea, Western Samoa and Fiji. Australia also held a large fair in China. All these activities played a positive role in promoting bilateral trade. China's total trade volume with Oceania was only \$98 million in 1972, but increased to over \$1.28 billion in 1979, a 13-fold increase in 7 years.

As the largest and most populous country in Oceania, Australia naturally is China's most important trade partner in this area. In 1973, the Chinese and Australian governments signed a trade agreement that stipulated that the two countries would give each other most-favored-nation status and that they would hold an annual meeting of the Joint Trade Committee to review the implementation of the agreement. In October 1978 the Australian Government announced that China would be given the general preferential tariff enjoyed by developing countries. All these measures gave a strong impetus to the growing trade between the two countries. Chinese imports from Australia include mainly agricultural and animal products and mineral ores. The economic and technical cooperation between the two countries has also concentrated on these two areas. In 1979 China imported a total of some \$900 million from Australia which was the fourth highest of all the countries from which China imported goods.

Chinese imports from Australia in the past few years have the following three features: One, in order to steadily promote the import trade, the two countries have signed long-term agreements on the supply of certain goods, such as wheat, iron ore and paper. Two, aside from traditional major import goods, such as grain and other raw materials, China has also gradually increased the imports of rolled steel, non-ferrous metal and machinery products. Three, while expanding bilateral trade, the two countries have also reached, or are negotiating, agreements on economic cooperation.

China exports textile products, drawworks, shoes and native and special products to Australia, while gradually increasing the sale of chemical industrial raw materials, machinery products and mineral products.

The article says: New Zealand, the green island country of Oceania, is another important trade partner of China. In 1973, the Chinese and New Zealand governments signed a trade agreement. In 1978, New Zealand granted China the general preferential tariff enjoyed by developing countries. Since 1973, Sino-New Zealand bilateral trade has increased nearly 13 times. Chinese imports from New Zealand include mainly animal and forestry products, as well as rolled steel and other goods. The imports of 1979 totaled some \$84 million. Concerned departments of the two countries are negotiating for cooperation in the fields of the utilization of terrestrial heat energy, steelmaking (?from iron sand), and the processing of dairy and forestry products. Chinese exports to New Zealand are mostly textile products, tea leaves and raw materials for the chemical industry.

The article says: Since the establishment of diplomatic relations between China and the Oceanian states of Fiji, Papua New Guinea, Western Samoa and Kiribati bilateral trade has developed steadily. At the same time, China also maintains non-governmental contacts with some island countries in the area that China has yet established diplomatic relations. Those states include Tonga, the Solomon Islands, New Caledonia, (?Vanua Levu), French Polynesia and Norfolk Island.

In conclusion, the article says: China has maintained friendly relations and trade ties with all countries and regions in Oceania for many years and has developed, on this basis, mutual understanding and trust with them. Both China and these countries and regions have the common aspiration to promote trade. That aspiration is encouraged and supported by the governments of all concerned. Both China and these countries and regions have a large variety of goods for exchange. The prospect for China's trade with all the countries in Oceania in the 1980's is very promising.

CSO: 4006

FOREIGN TRADE

IMPORT, EXPORT EVALUATION TECHNIQUES IMPROVED

Losses Recovered

Beijing GUANGMING RIBAO in Chinese 25 Aug 80 p 2

[Article by He Hongze (0149 3163 3419) and Li Wei (2621 5588A): "Import/Export Evaluation Techniques Improve"]

[Text] The import/export commodity inspection agencies established in all important trading ports of our country have vigorously embarked on a study of the theoretical and practical aspects of import/export commodity inspection methods. They have been continuously improving the techniques of checking and evaluating the quality of import and export commodities so that the commodity inspection certificates issued by our country have established an excellent reputation in international circles and have become indispensable evidence for both trading partners in connection with payments, settlements and claims for compensation, thus contributing to the development of our country's international trade.

Foreign trade commodity inspection covers quantity, quality, specifications, packing, sanitary conditions, transportation, etc., and frequently shipments are large and timed very short with the many special requirements of a highly technical nature.

During the last few years, many of the more than 5,000 men employed in inspection work at the almost 100 inspection agencies for import/export commodities throughout our country, while busily performing their extremely complex inspection and testing work, also simultaneously do job-related studies and scientific research, such research having produced successful results in over 500 instances. For instance, in research undertaken by the Tianjin Commodities Inspection Bureau and the Hohhot Commodities Inspection Bureau, fluorescent serum of over A-60 value was produced for use in the inspection of foodstuffs, which achieved a rate of 97 percent in diagnostic conformity in quick tests and reduced costs by 20 percent. The effectivity of the reagent has reached the advanced level of similar reagents produced in foreign countries. The Changsha Commodities Inspection Bureau, in cooperation with the Hunan Jianxiang Porcelain Works and the Yongsheng Porcelain Works, studied lowering the solubility of metal (lead) content in the colors used on porcelain for everyday use. Their research was successful and the lead solubility was reduced from 50 ppm to 2 ppm, which will enable our country's historically well-established porcelainware for daily use to enter the American market.

Furthermore, they did research in the use of xanthinopurine oxidase for the assessment of freshness of fish, its use as counteragent for the poison of hexachlorobenzene pollution in chicken and egg yolk, and research in the basic theory of mathematical statistics with regard to sampling of metallurgical products.

The raising of the technological level of commodity testing enabled our country to recover in many instances losses in foreign trade. In the case of imports of metal products, mechanical and electrical products, chemical raw materials, metallurgical products and similar commodities alone, our commodities inspection units found out in their tests last year over 7,000 cases with problems as to measurements, quality, specifications, hygienic standards, not conforming with the trade contract and the relevant state standards. Based on the results of the commodities inspection, our foreign trade agencies could negotiate appropriate claims compensation and recover foreign trade losses to the amount of U.S.\$34 million. All our export commodities too are now insured in their quality through supervision and assistance of the commodities inspection agencies, and the reputation of our export commodities has truly risen high.

Evaluation Called Important

Beijing GUANGMING RIBAO in Chinese 25 Aug 80 p 2

[Article by He Hongze and Li Wei: "Import/Export Evaluations Are Important"]

[Text] Much knowledge is required in the inspection of import/export commodities. The goods that are being inspected comprise agricultural, animal husbandry, light industry, textile industry and chemical industry products, as well as metallurgical materials, metals and complete plants. The scope of inspection comprises quality, specifications, weight, volume, as well as packing, hygienic conditions, transportation, etc. The categories are numerous and all-encompassing. It requires the employment of all kinds of analytical and measuring instruments, chemical reagents and statistical survey methods, involving various fields of science. Many items are not being tested by the production units, which may even lack the testing capability. The testing of import/export commodities is not only economic work but also work of a scientific and technological nature.

As a consequence of international trade development, the commodities testing technology abroad has reached a high level. They use many highly advanced testing technologies and methods, reaching a high level of mechanization, automation and computer control. Many countries have also established special agencies to engage in research in commodities testing, doing research in technology employed in commodities testing and its basic theories. Through commodities testing they have gained very beneficial economic effects. Although the technological level of our country's commodities testing has continuously gone up, it is still considerably below the advanced international level. Much of our testing work is at present still at the level of common testing by manual operations. Our instruments and equipment are antiquated and incomplete, and technical personnel lack proper training. Up to now there is not one agency in our country that engages in testing research and there is no systematic research into the technology of

commodity testing and measuring. All foreign trade only takes commodity testing at international levels as standard, and whoever has a low technological level will suffer trade losses.

Personnel of our commodities testing agencies fervently hope that a change will speedily be brought about in the backward conditions of our testing technology so as to catch up with the advanced world level. They call for a greater attention to be given by the relevant leading units to the scientific research into import/export commodities testing, so that this work will in the future be equipped with a certain technological capacity, that the instruments and equipment be renewed and remodeled and that an institute be established as speedily as possible for research into import/export commodities testing technology. All factories of the production units involved and related research institutes shall energetically support scientific research into commodities testing. With regard to technical personnel working in the commodities testing agencies, the various party policies governing technical personnel shall be realized in full earnest in order to arouse their enthusiasm. With the joint efforts of all concerned, we are determined to realize the modernization of our country's commodities testing technology at an early date.

8453

CSO: 4006

FOREIGN TRADE

BRIEFS

SHANGHAI EXPORT FIGURES--During the first half of this year, foreign trade through the port of Shanghai achieved in over half the time, completion of over half the planned task. The value of exports established a new record. Until the end of June, the procurement of export commodities actually achieved at this city was 63.8 percent of the planned annual figure. Goods shipped in from the other provinces actually were 67.1 percent of the planned annual figure. Exports achieved 50.3 percent of the planned annual figure. All figures are much higher than last year's. Equally good figures were achieved in orders for import commodities. The main reasons for the good performances of this year's export tasks at the port of Shanghai during the first half year were: (1) grasping commodity sources that are suitable to have their goods marketed; (2) bringing into full play the special capacity of the various companies and units, assigning tasks to the right places; (3) close cooperation and good coordination between industry and trade and working with unified effectiveness toward the outside. At the beginning of this year, after the state had handed down the Shanghai port export plan, there was a fairly large deficiency in the total sources for export commodities. The foreign trade agencies, giving consideration to the marketing conditions in foreign markets, resorted to buying up outside the plan certain types of commodities suitable for marketing, which had not been provided for in the plan. At present procurement of commodities within the plan has already reached 99.32 percent. [Text] [Shanghai WEN HUI BAO in Chinese 6 Jul 80 p 1] 8453

NINGBO FILLS EXPORT GOALS--Up to the end of July, Ningbo has prefulfilled 5 months in advance the total set for purchases for export for this year, which was 84.31 percent higher than for the same period last year, establishing this year a record for that particular period. To expand the sources for export commodities the foreign trade units of this city, in close coordination with the agencies in charge of industry, have been effective in the case of staple commodities as well as commodities to be exported in small lots, and have energetically developed the export of new products or products not listed in the export plan. Through various channels the foreign trade agencies acted as go-between for the production units, paving ways, building bridges and taking on the role of a Hong-niang [maid acting as go-between in the play "Story of the Western Chamber"]. In the past 7 months the following items were newly exported or are products not listed in the export plan: naphtha, chloroacetic acid, citric acid, "ka-si" stockings, machine embroideries, plastic floor tiles, frozen ducks, preserved fruit, deep-fried lima beans, dried young tender cabbage, flowers and trees, fresh snake gallbladder, scissors

and shears, large pliers, saws, multiple-use axes, altogether 29 items. The value of purchases for export amounted to 33.26 percent of all commodities purchased during these 7 months. To render the export commodities suitable for the international market, they also strengthened the investigation and study of trade conditions abroad and guided the development of export commodity production. [Text] [Hangzhou ZHEJIANG RIBAO in Chinese 13 Aug 80 p 1] 8453

TIANJIN EXPORTS--In late November, Tianjin foreign trade departments put on Tianjin markets exports worth some 15 million yuan which could not be sold. These include 1.22 million meters of dress material, 40,000 jin of peanut oil, 80,000 pieces of woolen blankets, 25,000 articles of wool clothes, 57,000 other clothes articles and about 2.7 million yuan worth of bed sheets, table cloths, towels and other consumer goods. [SK01005 Tianjin City Service in Mandarin 2330 GMT 28 Nov 80 SK]

ZHEJIANG CHAINS EXPORT--The Hangzhou Chain Factory recently signed a \$2 million contract with West Germany's Continental Company at the Guangzhou autumn export commodity fair for supplying the latter 1.27 million meters of chains of various categories in 1981. This is the very first time the factory has ever won such a big contract with any foreign country, although it exported 270,000 meters of chains in 1978 and 420,000 meters in 1979 worth over \$1 million. In these 2 years, the factory received nine groups of potential customers from the United States, France, Thailand and West Germany on inspection and consultation tours. [Hangzhou Zhejiang Provincial Service in Mandarin 0400 GMT 16 Nov 80 OW]

GUANGZHOU FAIR CLOSURE--Guangzhou, 15 Nov (XINHUA)--China's 1980 autumn export commodities fair closed today at the Guangzhou Foreign Trade Center. Officials reported that the volume of export transactions for cereals, edible oil, foodstuffs, light industrial products, equipment and machinery was bigger than at any previous fair. Sales of petrochemicals, farm and side-line products, ceramics, woven grass ware, embroidery, toys, hand tools and hardware were also brisk. Demand for traditional export native produce and animal by-products, including rosin, tong oil and green tea, outstripped supplies. Newly established import and export corporations and some enterprises sent representatives to take part in trade negotiations. [Text] [Beijing XINHUA in English 1308 GMT 15 Nov 80 OW]

CSO: 4006

TRANSPORTATION

ADVANTAGES OF POOLING MOTOR VEHICLES EXPLAINED

Beijing RENMIN RIBAO in Chinese 21 Sep 80 p 2

[Article by Xu Yongping [6079 3057 1627]: "Many Advantages to Organized Use of Scattered Motor Vehicles"]

[Text] Organization of the use of the motor vehicles scattered through government organizations and business enterprises can increase existing motor vehicle transportation efficiency, reduce deadheading, and help effect increased economies.

There are currently somewhat more than 1.3 million civilian motor vehicles in China, with only somewhat more than 180,000 of them belonging to transportation units. The vast majority of motor vehicles are scattered among government organizations and business enterprises. Since all these scattered motor vehicles are part of separate systems, transportation efficiency is very low and a great deal of deadheading occurs. In order to change this state of affairs in the management of motor vehicular transportation, the traffic management units of some provinces, municipalities, and autonomous regions have in recent years organized the motor vehicles scattered throughout society into an integrated enterprise for the mutual benefit of all. They have scored definite achievements in getting a sensible system of transportation started. According to incomplete statistics, about 100,000 trucks have now been organized for use nationwide.

Organization of the use of motor vehicles in society has many advantages. First of all, it increases the motor vehicle utilization rate. A partial pooling of vehicle fleets in the Minhang section of Shanghai has permitted the daily dispatch of 37 vehicles to complete the transportation work formerly done by 102 vehicles from individual plants. Second, it assures the completion of emergency tasks. During late September of last year, the Tianjin Municipal Textile Bureau's color printing company needed to have 50 tons of cement moved quickly from the railroad station. Since this company had already pooled all of its trucks, the rush transportation of this quantity of cement required only 3 hours. This formerly would have been difficult to do. Third, it saves transportation costs and fuel. After the Shanghai Storage and Transportation Company of the State Supplies Bureau pooled its trucks, which were scattered at individual warehouses, during the last half of last year, transportation costs per ton of goods declined .45 yuan over 1977, for a saving of 230,000 yuan for the state. After the Gongxing Road vehicle fleet in Shanghai was pooled, gasoline consumption declined about 20 percent. Fourth, the technical condition

of the vehicles is improved. Before the pooling of vehicles, the number of vehicles in good operating condition was only 60 percent because of poor mechanical care and a lack of the people needed to do maintenance and repair. After pooling, with a strengthening of "care, use, maintenance, and repair," the number in good condition reached about 80 percent.

A look at vehicle pooling situation last year shows that three different methods have been adopted: the formation of motor vehicle transportation companies or vehicle fleets by regions that cut across trade and industrial lines; and the formation of special truck fleets according to the kinds of goods to be hauled. We will further explore improved methods for organizing, in a planned and measured way, the use of vehicles scattered among government organizations and business enterprises, taking into account the actual situation existing in local areas and local units.

Organized use of vehicles places higher demands on transportation units. Transportation units will have to change their bureaucratic commercial workstyle, increase the quality of their service, and the efficiency of their transportation, and accommodate users so as to satisfy the transportation needs of all quarters.

9432

CSO: 4006

TRANSPORTATION

NATIONAL CITY TRAFFIC MANAGERS STUDY PRESENT CHAOS

Need for Scientific Management

Beijing RENMIN RIBAO in Chinese 21 Sep 80 p 2

[Article: "Scientific Management of Urban Traffic Urged by National Urban Traffic Seminar"]

[Text] A National Urban Traffic Management Forum, recently convened in Luda by the Public Security Bureau, urged: "Current urban traffic work must continue to adhere to an overall program of control, must implement scientific management, and must do a good job of orderly municipal traffic control. It called for control of traffic on major streets and thoroughfares by the end of 1981, with vehicles and pedestrians moving in their own prescribed lanes, no crossing of lines by vehicles, no jaywalking by pedestrians, and no obstacles in the streets."

Great changes have taken place during the past several years in China's urban traffic situation. There have been a great increase in the number of motorized vehicles, and the number both of nonmotorized vehicles and of pedestrians have increased tenfold, but the work of municipal road construction and traffic management has been unable to keep pace with developing needs. The volume of traffic flow on some streets has already reached the saturation point; on some roads all sorts of vehicles move along, mixed together with pedestrians; at some intersections, there is chaos with frequent traffic jams. Comrades attending the National Urban Traffic Management Forum from each province, municipality, and autonomous region unanimously agreed that if order is to be brought to municipal transportation, traffic management work must be improved through scientific management.

This forum took account of experiences in various places in emphasizing study of the use of scientific management as the principal measure for bringing order to municipal traffic. By this is meant a strict delineation of vehicle and passenger lanes; strict traffic management, with a determination to correct violations of regulations; and close teaming up of municipal construction with constant improvement in road conditions.

Comrades attending the forum felt that if there is to be scientific management of traffic and orderliness in municipal traffic, widespread propaganda work will also have to be done so that every sector, every trade and industry, and every person will be concerned, will support urban traffic management work, and will jointly maintain municipal traffic orderliness.

Success in Luda

Beijing RENMIN RIBAO in Chinese 21 Sep 80 p 2

[Article: "Luda Effects Overall Control Over Traffic"]

[Text] Within a short time after instituting scientific management of municipal traffic, Luda has virtually turned around the chaotic situation that had existed in traffic within the city, achieving its objective of "no obstructions in the streets, no crossing of lines by vehicles, and no jaywalking by pedestrians" on the major thoroughfares.

Luda is a port city of more than a million people that is open to foreign trade. During the 10 years of catastrophe, traffic management work in the city was severely damaged, traffic was in chaos, and there were many accidents in which people were injured or killed. After the smashing of the "gang of four," Luda instituted overall control of municipal traffic. After restructuring, a striking change occurred in the traffic situation. On 27 of the main thoroughfares throughout the city, a clearing of all three lanes was instituted (i.e., no obstructions in the fast or slow lanes for vehicles or on sidewalks); there was orderliness at major intersections; and the number of injuries and deaths from accidents greatly declined. In municipal traffic safety campaigns of comparison and assessment for Liaoning Province, Luda took first place for the 3 years 1978 through 1980. Luda was considered an advanced unit in municipal traffic management for the province.

In its restructuring of traffic orderliness, Luda first of all came to grips with the restructuring of obstacles that impair orderly traffic, and set the stage for vehicles and pedestrians to move in separate lanes. Over the past several years they cleared away impediments to the flow of traffic on more than 80 roads, changing the situation in which "pedestrians walked in the lane for slow vehicles, and slow vehicles squeezed into the fast lane." Traffic management units publicized 16 violations of regulations involving motorized vehicles overtaking other vehicles and careening around, bicycles crossing lines, and pedestrians jaywalking, setting the means to be used in dealing with such matters. On major thoroughfares they set up median strips to separate pedestrians from vehicles, according to the scientific method of each having his own lane, thereby limiting the mixing of vehicles and pedestrians and reducing unsafe conditions.

They took aim at traffic congestion caused by a lack of improvements in road conditions, actively readjusting the volume of traffic flow, reducing clogging of the streets, and increasing the capacity of roads. On Zhongshan Road and Shazhou Road, which are fairly broad avenues, they made a change from the former four lanes of traffic in both directions to six lanes of traffic in both directions, thereby increasing transportation efficiency there by about 30 percent. They also got rid of some superfluous police posts and bus stops and repaired traffic circles, thereby turning areas of congestion into open places. They designated four routes for one-way vehicular traffic only and banned bicycles from three routes, thereby bringing about a balance in the volume of traffic flow on several main thoroughfares and ameliorating congestion. They also readjusted the volume of pedestrian and bicycle flow, encouraging enterprises and government units to increase schedules bus service, streetcars, and motor vehicles, to set up an integrated and more extensive transportation system.

In downtown Luda today, virtually all traffic intersections have automatic signal systems, and traffic management units are constantly studying and improving the automatic signals to improve their regulation of traffic and to increase the capacity of the intersections to handle traffic. As a result of the automatic control of traffic signals, civilian police have changed from sitting at "stationary positions" to going to moving positions, thus strengthening the patrolling and management of roads.

9432

CSO: 4006

TRANSPORTATION

PROPOSALS DESIGNED TO SPEED UP HIGHWAY CONSTRUCTION

Beijing RENMIN RIBAO in Chinese 21 Sep 80 p 2

[Article by Xian Lizhi [0341 4539 1807]: "A Few Proposals for Hastening Highway Construction"]

[Text] Highway transportation accounts for a fairly large proportion of China's total means of transportation. In 1978, the nationwide turnover in highway transportation amounted to 9.2 percent of the turnover for the three modes of transportation (railroads, water transportation, and highways); the amount of cargo hauled by highway amounted to 68.4 percent of the total for all three modes and had an output value of 24.4 billion yuan, accounting for 51 percent of total output value for transportation nationwide. This was 3.7 percent of total output value for production nationwide. This is to say that for every yuan of value in final products turned out in China, .037 yuan was highway transportation value.

Following the establishment of the People's Republic, highway construction saw great growth. But in an overall sense, our country's highway situation is still rather backward. The number of highways is small, and their technical standards are low. China now has 890,000 kilometers of highways, of which highways that are technically substandard account for 45 percent. First- and second-class highways still amount to less than 2 percent. One-third of the highways are made of dirt, and only 17 percent of all highways have asphalt, residual oil, or concrete surface. There are 128,000 bridges, most of which are not wide enough and have a low weight-bearing capacity. Additionally, there are more than 700 ferry crossings where the construction of bridges is awaited.

Because of the scarcity of highways, the inability to travel from one place to another or to move directly from one place to another is a very common phenomenon, and is particularly prevalent in mountainous regions. Because of low highway technology, the speed of vehicle operation does not meet the speeds for which vehicles were designed, nor does it meet the requirements for economical operation of the vehicles. Consequently, waste of power and fuel is fairly serious. It is estimated that during 1979 alone, about one-third to one-half of the power of automobiles, and more than 1 million tons of gasoline, were wasted. The accidents resulting from poor highways are also extremely serious.

This state of affairs is not geared to development of the national economy or to construction of the four modernizations. The following proposals are designed to change this situation.

Change the Existing System of Highway Management

In many foreign countries, the highways are divided for management purposes. Prior to 1958, in China too there was a division of responsibility for highways between the central government and local jurisdictions. The central government was responsible for the planning and building of main highways, and local jurisdictions were responsible for the planning and building of highways that were local in nature. Numerous main highways such as the Sichuan-Tibet and the Qinghai-Tibet highways, the Karamai and Tsaidam oilfield highways, the Sichuan-Guizhou and Sichuan-Yunnan highways, the Yantai-Weifang Highway in Shandong Province, the Highway for the Support of the Frontlines in Fujian, the Haikou-Yulin Highway on Hainan Island, and the Beijing-Tianjin-Tangshan Highway running from Beijing to the sea were all built during this era, under the responsibility of the central government. But for some unknown reason, after 1958 highways came to be regarded as nonindustrial systems and were transferred entirely to lower levels. The Highway Bureau and its eight highway engineering bureaus and five highway design institutes, which had been responsible for nationwide highway construction and motor car transportation, were totally disbanded. A complete highway management system was abolished, and technical files and technical data were lost. From then on, planning, programs and policies, the system of rules and regulations, technical standards, quota management, and the building of a highway corps, etc., for highway construction were in limbo. Some special problems in highway employments remained unsolved for a long time for a lack of people to take responsibility for considering them. Some highway employees worked from the time they were young until old age, beginning in the early liberation period with the building of the Sichuan-Tibet Highway and the Qinghai-Tibet Highway, and through the war as it moved from north to south, and yet today they still have no fixed place of abode. Husbands and wives cannot become reunited, and children cannot go to school. There are really numerous practical problems that cannot be solved. The current situation in the highway corps is this: the old ones want to leave, and no new ones want to come. The schools cannot attract students, and undertakings cannot attract workers. If this continues, there is a danger that there will be no one to carry on highway operations.

In order to solve these problems there must first be a change in the existing highway management system, using both domestic and foreign experiences to designate highways throughout the country as being either national, provincial, county, or commune and brigade roads, with separate levels of management. National roads would be under unified planning and construction by the state; provincial roads and county roads would be planned and constructed by local jurisdictions; and commune and brigade roads would be built by the masses themselves according to their own requirements, and would be operated by the people with the help of public funds. National defense and border defense highways would be the responsibility of the military sector for planning and construction.

This system would provide both unified leadership and a division of responsibility for work, making for the arousal of initiative by both the central government and regional jurisdictions. This is the only way in which highway construction can be increased within a short period of time.

Establishment of Highway Construction Funds

Construction of highways requires a certain amount of capital. If the demands are too high and are divorced from realistic objective circumstances and the realm of possibility, they will not be able to be put into effect. On the other hand, if not a penny is to be spent and an effort is made to cook without rice, that won't work either. China can amass highway construction funds from several quarters.

First, the state can invest capital. Highway construction is an integral part of national economic construction. But China today makes only small expenditures annually in the category of national defense preparations and border defense highways. During the period of the First Five-Year Plan, expenditures for investment in highway construction amounted to 3-5 percent of national capital construction investment. Henceforth, annual state capital construction investments should also include definite expenditures for large construction; certainly there can be no refusal to spend a little.

Second, on the basis of the principle that "road users construct the roads," it is proposed that a 10-percent surcharge, to be used for road construction, be included in the price of motor vehicles, gasoline, and tires. Such a method is in use abroad. Data from foreign countries show that good road construction reduces by more than 10 percent the total expenditures for damage to automobile parts and for gasoline.

The two aforementioned sums of money may be placed under the unified control of the central government for use in construction of national roads and to help with the construction of roads in mountain areas.

Third, following the principle of "using the roads to support the roads", road maintenance fees levied on vehicles traveling the roads would be in the hands of the provinces. Most of the money thus derived would be used in the maintenance and repair of highways. Additionally, attention would have to be given to improvements in old roads and to the new construction of provincial and prefectural highways.

Fourth, a certain sum of local tax revenues from agricultural surtaxes would be used for county road construction and for help to communes and brigades in road construction. This would be under county control.

The several aforementioned sources for the collection of funds for highway construction would be fixed by law so that these special funds would be used for their special purpose. Additionally, in the case of some special highways, foreign capital or bank credits could be used for construction. Once the highways have been built, "highway tolls" could be collected on vehicles using them in order to amortize debts. Some foreign countries use these methods in the construction of high-speed highways.

The quantity and scale of highway construction require substantial sums of money. But if one feels at his wits' end and believes that nothing can be done on this account, that is a passive attitude. If active measures are adopted and the sources and flow of funds are broadened, funds for highway construction will be found. The key lies in the determination on the part of the leadership.

There is another point to be made, and that is that construction of highways must be based on the realities in China, such as a large labor force and relatively scarce arable land, numerous plains in the north, and numerous mountains in the south. All kinds of means of transportation (motor vehicles, people, animal-drawn vehicles, and bicycles) are on the roads at the same time, and highway standards are currently low. Roads that abruptly come to an end are commonplace, and highway development is not balanced. Needed is the formulation of road-construction plans, programs, policies, and technical criteria for the gradual construction of a network of main highways in China. There will have to be an adaptation of general methods to specific situations for vigorous improvements of old roads. Gradual construction of some high-speed highways is necessary. In this way, the possibility exists for the rather rapid transformation of the backward look of China's highways to bring highway endeavors in line with China's economic development, the development of science and technology, and the material and cultural life of the people.

9432
CSO: 4006

TRANSPORTATION

BRIEFS

XIANGFAN-CHENGDU RAILWAY--Xian, 20 Oct (XINHUA)--The electrification of the Hujiaying-Ankang section of the Xiangfang-Chengdu railway was completed and open to traffic on 10 October. Up to now, the 361-km east section (from Xiangfan in Hubei to Ankang in Shaanxi) of the said railway has been entirely served by electric powered trains. The Hujiaying-Ankang section is 137 km long. [Beijing XINHUA Domestic Service in Chinese 1152 GMT 20 Oct 80 OW]

CAAC HONG KONG VISIT--Hong Kong, 20 Nov (XINHUA)--Wang Chiji, office manager of the General Administration of Civil Aviation of China (CAAC) who is currently visiting Hong Kong gave a banquet on the evening of 19 November here in honor of those personnel of the former China National Aviation Corporation and the Central Air Transport Corporation who crossed over to the motherland in 1949. On behalf of CAAC, Wang Chiji extended warm greetings to the flight and ground personnel of the former two airlines. Wang Chiji led a CAAC press delegation to Hong Kong on 13 November to participate in the inaugural ceremony for the Beijing-Hong Kong and Hangzhou-Hong Kong air service. [Beijing XINHUA Domestic Service in Chinese 1643 GMT 20 Nov 80 OW]

LIAONING SEAPORTS--After dredging and rebuilding, the traffic capacity of Yingkou Port, Liaoning Province, has increased. This year 440 cargo vessels arrived from or sailed to Qingdao, Yantai, Longkou and Lianyung ports, and Yingkou port handled a total of 240,000 tons of cargo. Two 7,000-ton oceangoing cargo vessels have sailed to Japan from this port since the summer. [Shenyang Liaoning Provincial Service in Mandarin 1100 GMT 30 Nov 80 SK] Xingcheng County, Liaoning Province, has built a small seaport at the northern gulf of (Qinghua) Island. The total length of the seaport is 70 meters. [Shenyang Liaoning Provincial Service in Mandarin 11-0 GMT 30 Nov 80 SK]

SHANGHAI RIVER-HARNESSING PROJECT--Work on the (Zoumatang) project commenced on 10 November. This project, covering some parts of Yangpu district and Baoshan County of Shanghai Municipality, includes the dredging of a 10-kilometer river section, construction of 14 bridges and building of embankment. The project will be carried out in two stages. The first-stage work is expected to be completed before the end of this year. [Shanghai City Service in Mandarin 1130 GMT 21 Oct 80 OW]

MALTESE DOCK--Valletta, 14 Nov (XINHUA)--The "Red China" dock built by Maltese and Chinese technicians and workers has been put into operation and a super tanker entered the dock for repair today. Today thousands of people gathered in and around the dock to watch Maltese and Chinese workers tug the 217,000-ton Greek tanker into the dock chamber. Maltese Minister of Telecommunications Wistin Abela was present on the occasion. The Greek super tanker is the fifth ship to be repaired at the dock since it was put into trial-use on 9 October this year. Before the dock was built, Malta could not repair ships bigger than 123,500 tons. [Text] [Beijing XINHUA in English 0105 GMT 15 Nov 80 OW]

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GENERAL

BRIEFS

INDUSTRY, COMMERCE DELEGATION--Hong Kong, 21 Nov (XINHUA)--The delegation of All-China Federation of Industry and Commerce headed by Hu Ziang arrived in Hong Kong from Guangzhou on 21 November. It was greeted at the railway station by officers of the Chinese General Chamber of Commerce in Hong Kong and other commercial and banking figures. The delegation has come to Hong Kong to participate in activities to celebrate the 80th anniversary of the Chinese General Chamber of Commerce in Hong Kong. [Beijing XINHUA Domestic Service in Chinese 1433 GMT 80 OW]

BEIJING ECONOMIC FORUM--Beijing, 25 Nov (XINHUA)--Recently the China Research Society on the socialist aspects of political economy held a discussion meeting on the goal of socialist production, attended by more than 100 economic theorists and workers in Beijing. Twenty-one comrades spoke. They analyzed the historical background of the discussion as well as its theoretical and practical significance and maintained that a clear understanding of the goal of socialist production would help eliminate the ultraleft poison in economic work and arouse the workers' enthusiasm for production. They called for creating the objective conditions for achieving the goal of production--bringing happiness to the working people by satisfying their ever-increasing needs in material and cultural life. [OW030351 Beijing XINHUA Domestic Service in Chinese 0218 GMT 25 Nov 80 OW]

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